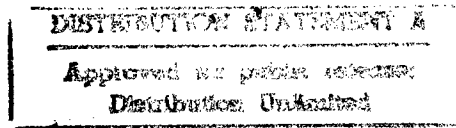


DOD 7000.14-R



DEPARTMENT OF DEFENSE

**FINANCIAL MANAGEMENT
REGULATION**

VOLUME 12

**SPECIAL ACCOUNTS
FUNDS AND PROGRAMS**

SEPTEMBER 1996

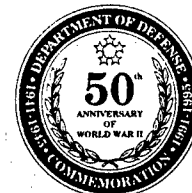
**UNDER SECRETARY OF DEFENSE
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COMPTROLLER

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SEP -5 1996

FOREWORD

This Volume of the "Department of Defense Financial Management Regulation" is issued under the authority of DoD Instruction 7000.14, "DoD Financial Management Policy and Procedures," dated November 15, 1992. It governs financial management by establishing and enforcing requirements, principles, standards, systems, procedures, and practices necessary to comply with financial management statutory and regulatory requirements applicable to the Department of Defense. It directs financial management requirements, systems, and functions for all appropriated, working capital, revolving, and trust fund activities. In addition, it directs statutory and regulatory financial reporting requirements.

Volume 12 of the "DoD Financial Management Regulation" establishes policies and procedures for "Special Accounts Funds and Programs."

This Volume of the Regulation applies to the Office of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff, the Unified Combatant Commands, the Inspector General of the Department of Defense, the Defense Agencies, and the DoD Field Activities (hereafter referred to collectively as "DoD Components").

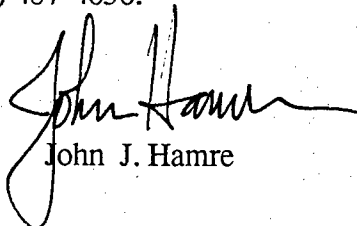
This Volume of the Regulation is effective immediately and is mandatory for use by all DoD Components. Heads of DoD Components shall ensure that the provisions of this Volume are adhered to in day-to-day operations and in the design, modification, and maintenance of their Component's financial management and reporting system or systems. The Heads of DoD Components shall not issue supplementary directives and/or regulations without the prior written approval of the Office of the Under Secretary of Defense (Comptroller).

The reporting requirements in this Regulation are exempt from licensing in accordance with paragraph E.4.f., of DoD 8910.1-M, "DoD Procedures for Management of Information Requirements," November 1986.

Forward recommended changes to this Volume of the Regulation through channels to the address below. Submit requests for deviations from or exceptions to specific standards, with justification, to:

Office of the Under Secretary of Defense (Comptroller)
1100 Defense Pentagon
Washington, DC 20301-1100

The Defense Finance and Accounting Service will provide copies of this Volume of the Regulation through its normal publication channels. Other Federal Agencies and the public may obtain copies of this Volume from the National Technical Information Service, 5285 Port Royal Road, Springfield, VA 22161; telephone (703) 487-4650.


John J. Hamre

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INTRODUCTION TO THE DoD FINANCIAL MANAGEMENT REGULATION

GENERAL

The DoD Financial Management Regulation provides all DoD components with the policy, regulation, and procedures within the area of responsibility of the Under Secretary of Defense (Comptroller)(USD(C)). The Regulation consists of the following 15 volumes:

1. General Financial Management Information, Systems, and Requirements
2. Budget Presentation and Formulation
3. Budget Execution - Availability and Use of Budgetary Resources
4. Accounting Policy and Procedures
5. Disbursing Policy and Procedures
6. Reporting Policy and Procedures
7. Military Pay Policy and Procedures
8. Civilian Pay Policy and Procedures
9. Travel Policy and Procedures
10. Contract Payment Policy and Procedures
11. Reimbursable Operations Policy and Procedures
12. Special Accounts, Funds and Programs
13. Nonappropriated Funds Policy and Procedures
14. Administrative Control of Funds and Antideficiency Act Violations
15. Security Assistance Policy and Procedures

AUTHORIZATION

This Regulation is issued by the USD(C) under authority of Department of Defense Instruction 7000.14 "DoD Financial Management Policy and Procedures," dated November 15, 1992.

PARAGRAPH NUMBERING SYSTEM

The paragraph numbering system of this Regulation is consistent for all 15 Volumes. The six digit paragraph number and its subparagraph designators are formulated as follows:

<u>01</u>	<u>01</u>	<u>01</u>	<u>A.1.a.(1)(a)</u>
CHAPTER 1	SECTION 1	PARAGRAPH 1	SUBPARAGRAPHS

PUBLICATIONS INCORPORATED

This Volume of the “DoD Financial Management Regulation” incorporates the policy and procedures contained in the following publications:

- DoDI 1000.10 “Procedures Governing Credit Unions on DoD Installations”
- DoDD 1000.11 “Financial Institutions on DoD Installations”
- DoDI 1000.12 “Procedures Governing Banking Offices on DoD Installations”
- DoDI 1338.17 “Funding Military Academy Dining Hall Operations”
- DoDI 7200.10 “Guidance for Accounting and Reporting of Government Property Lost, Damaged, or Destroyed”
- DoD 7200.10-M “Department of Defense Accounting and Reporting for Government Property Lost, Damaged, or Destroyed”
- DoDD 7200.11 “Liability for Government Property Lost, Damaged, or Destroyed”
- DoD 7220.9-M “DoD Finance and Accounting Manual” (Chapters: 28, 47, 65, and 81)
- DoDI 7460.2 “Regulations Governing the Use of Management Funds”

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CHAPTER 1

FUNDS0101 OVERVIEW

010101. Purpose. This Chapter establishes the accounting requirements for various DoD funds (as opposed to appropriations). Reporting requirements for funds are prescribed in Volume 6 of this Regulation.

010102. General. As described in Volume 3 of this Regulation, appropriations normally are made available to the Department of Defense as general fund expenditure accounts. This chapter includes a broad description of the remaining types of funds and their operation. The use of the term "accounts" in the context of this chapter should not be confused with "accounts" as in general ledger "accounts." The "Treasury Financial Manual" describes the various categories of Federal Government funds that use the term "accounts." These accounts have been assigned Treasury federal account symbols as described in this chapter.

010103. Fund Groups. All accounts are identified by fund group through assignment of numeric and/or alphanumeric account symbols. The symbol assigned to an account is determined after consideration of the governmental effect of the account and the source of the receipt, and the availability of the fund for expenditure. Some of these accounts have a significant impact on the operations of the Department of Defense. The Federal Account Symbols and Titles (FAST) book which is a supplement to the "Treasury Financial Manual" contains all of the fund groups, account symbols and titles assigned by the Department of the Treasury. Table 1-1 lists the fund groups and the federal account symbols assigned by the Department of the Treasury.

0102 ACCOUNTING STANDARDS

010201. General Standards. The accounting principles and standards prescribed in this Regulation apply to the budgetary and proprietary accounts, and to those reports required for the various fund types discussed in this part except when otherwise stated. Managers of funds that have budgetary resources available shall use the budgetary accounts and budget execution reports shall be submitted as prescribed in this Regulation.

010202. Special Standards. As applicable, special standards are identified in this chapter for certain funds discussed herein.

FUND GROUPS

General Funds	0000-3799
Clearing Accounts	3800-3899
Consolidated Working Funds	3900-3959
Management Funds	3960-3999
Revolving Funds:	
Public Enterprise	4000-4499
Intragovernmental	4500-4999
Special Funds	5000-5999
Deposit Funds	6000-6999
Trust Funds:	
Departments and Agencies	8000-8399 and 8500-8999
Trust Revolving Funds	8400-8499

Table 1-1**0103 ACCOUNTING FOR FUNDS**

010301. General Fund Receipt Accounts. General fund receipt accounts have been established to account for receipts of the Federal Government that have not been earmarked by law for a specific purpose. For internal control purposes, none of the receipts credited to these accounts are available for obligation and expenditure. Therefore, general fund receipt account collections do not affect budgetary resources. General fund receipt account collections do provide resources to the Congress to fund appropriations. However, a Congressional appropriation action requires a separate accounting process.

A. Unless there is specific statutory authority that authorizes a reimbursement to an appropriation account or fund (including special funds), all collections shall be credited to the appropriate general fund receipt account. However, obligations incurred that result in, or as a result of a general fund receipt account collection or receivable shall be recorded in the budgetary accounts of a direct appropriation or fund. Such obligations may be recorded as reimbursable obligations only when authorized to be reimbursed independent of the general fund receipt collection.

B. Accounts receivable for the general fund receipt accounts shall be recorded whenever an event results in the determination that money is owed to the U.S. Government. General fund receipt account receivables may be recorded at a summary level. Examples include:

1. A receivable shall be recorded for general fund receipt account 2651, "Sale of Scrap and Salvage Materials, Defense," based upon the recording of an issue or

the transfer of ownership of scrap or salvage material to a buyer. (Normally, however, a cash payment is required.)

2. A receivable shall be recorded for general fund receipt account 3019, "Recoveries for Government Property Lost or Damaged, not Otherwise Classified, Army, Navy, Air Force," based upon the receipt of an approved DD Form 200, "Report of Survey."

3. The accounting for receivables and collection of those receivables in general fund receipt accounts is described in Volume 4 of this Regulation.

010302. Clearing Accounts. These accounts are solely established for the temporary holding of general, special or trust collections, or unidentified disbursements pending clearance to the applicable receipt or expenditure account. These clearing accounts are to be used only when there is a reasonable basis or evidence that the collections or disbursements belong to the U.S. Government and therefore properly affect the budgetary resources of the DoD activity. Unidentified disbursements or collections not meeting this criteria shall be recorded in the deposit fund accounts discussed in paragraph 010307, below. None of the collections recorded in clearing accounts are available for obligation or expenditure while in a clearing account. If unidentified disbursements recorded in a clearing account exceed collections at the end of a fiscal year, the DoD Component shall establish an obligation in its major support appropriation account for the net difference. DoD activities shall, before the end of the fiscal year, obligate estimated amounts to preclude an Antideficiency Act Violation (see Volume 14 of this Regulation) as a result of this requirement. These entries shall be reversed at the beginning of the next fiscal year. Management action should be taken to minimize the balances in these accounts and the impact of these fiscal year end entries. Clearing accounts are identifiable by an "F" preceding the last four digits that classify an account by fund group.

A. The Budget Clearing Account (suspense), F3875, shall be used for unidentified remittances presumed to be applicable to budget accounts in general but required to be held in suspense because the specific account to be credited is not yet known. The use of this account gives immediate budget effect with respect to all items for which ultimate credit to a budget account is a reasonable presumption. However, DoD Components shall make every effort to maintain a minimum balance in this account by expeditiously transferring all monies initially classified in this account to the proper account. Clearing accounts are distinguished from deposit fund accounts in that deposit fund accounts do not affect the Component budgetary resources, whereas clearing accounts do affect the balance of Funds with Treasury and budgetary resources available as described in the introductory paragraph, above.

B. The "Deposits in Transit Differences (suspense)" clearing account, F3878, is used by the Department of the Treasury to adjust for discrepancies relating to deposit tickets and/or debit vouchers that have aged 6 months or more. DoD Components shall make every effort to clear balances in this account by expeditiously transferring all moneys out of this account to the proper account.

C. Table 1-2 illustrates the most common entries used for clearing accounts. The documentation supporting such entries includes cash collection vouchers and disbursement records.

ACCOUNTING ENTRIES USED FOR CLEARING ACCOUNT

- | | | | |
|----|----|------|-----------------------------|
| a. | Dr | 1011 | Funds Collected |
| | Cr | 1014 | Undistributed Collections |
| b. | Dr | 1015 | Undistributed Disbursements |
| | Cr | 1012 | Funds Disbursed |

Table 1-2

D. Any net balance of disbursements exceeding collections remaining in a clearing account at the end of a fiscal year shall be obligated. Table 1-3 illustrates this obligation. The documentation supporting such entries is a journal voucher prepared at the end of the fiscal year.

ACCOUNT ENTRIES FOR CLEARING ACCOUNTS WHEN NET BALANCES OF DISBURSEMENTS EXCEED COLLECTIONS

- | | | |
|----|------|--|
| Dr | 4611 | Uncommitted/Unobligated Allotments-Direct Program-Current Period |
| Cr | 4930 | Accrued Expenditures-Paid-Direct Program |

Table 1-3

010303. Consolidated Working Fund Accounts. These are accounts established to hold funds transferred from other Federal Agencies or DoD activities pending transfer to an appropriate expenditure account as authorized by provisions of law. Consolidated working funds are credited with funds transferred from more than one appropriation or fund from within or outside the Department. Consolidated working funds are not available for obligation and expenditure. Their purpose is solely to hold the funds until transferred to an appropriation or fund account that will finance the work to be performed. Transfers into and out of the account are nonexpenditure transfers. Amounts in consolidated working fund accounts are available for transfer for the same periods as the accounts from which the funds were transferred.

A. Unless a specific provision of law provides otherwise, a consolidated working fund carries the fiscal characteristics and limitations of the appropriations or funds from which the transfer was made. Thus, funds transferred to a consolidated working fund must have similar purposes, fiscal characteristics, and limitations. For example, no-year, multiple-year, and single-year accounts shall not be commingled in the same consolidated working fund. Fund availability in a consolidated working fund expires when the accounts that advanced the funds expire. Likewise, appropriations designated by the Congress for dissimilar purposes, that is, operations and maintenance or procurement, shall not be commingled in the same consolidated working fund.

B. Consolidated working funds shall be accounted for by fiscal year on the same basis as the appropriations or funds that advanced funds to the working fund. Therefore, nonexpenditure transfers must be made to other appropriations or funds before the original funds expire for obligation purposes. In effect, the consolidated working fund is simply a holding account into which available funds are transferred. Then, based upon appropriate analysis and justification, funds are transferred to other accounts in amounts needed for execution purposes.

C. Since no execution or performance is permitted to occur in a consolidated working fund, accounting and reporting requirements are limited to the accounting and reporting of available budgetary resources, related equity, and funds with Treasury. Figure 1-1 shows an overview of the operation of a consolidated working fund.

D. Balances in consolidated working fund accounts shall be recorded as any other appropriated balance. Table 1-4 illustrates those entries.

E. The documentation supporting this entry includes approved SF 1151, "Nonexpenditure Transfers."

010304. Management Fund Accounts. Currently management funds are not authorized for use within the DoD.

BALANCES IN CONSOLIDATED WORKING FUND ACCOUNTS ENTRIES

Dr	1013	Funds with Treasury
Dr	4170	Appropriation Transfers
Cr	3100	Appropriated Capital
Cr	4160	Anticipated Transfers of Current Fiscal Year Authority

Table 1-4

010305. Revolving Funds. Revolving funds are established to finance a continuing cycle of business-type operations. Revolving fund accounts are authorized to be credited with receipts, incur obligations, and make expenditures. Revolving fund collections are normally available for obligation and expenditure without further action by the Congress. However, DoD revolving funds (except for some business areas within the Defense Business Operations Fund) are subject to apportionment by the OMB. Apportionment by the OMB precludes obligation or expenditure of funds in excess of the apportioned balance during a fiscal period. Figure 1-2 is an overview of the operation of revolving funds. The following concepts normally apply to revolving funds:

A. There are two types of revolving funds. Public enterprise revolving funds are distinguished from intragovernmental revolving funds by the source of revenues. Public enterprise revolving fund revenues come primarily from outside the Federal Government. Intragovernmental revolving fund revenues come primarily from other federal appropriations or funds.

B. Appropriations and/or reappropriations are usually provided to start, increase the size, or replace significant losses of a revolving fund. Also, existing resources in other accounts may be transferred to a revolving fund as capitalized assets to serve the same purposes in lieu of an appropriation. The resources used to commence or increase the size of a revolving fund commonly are referred to as "the corpus of the revolving fund." The corpus forms the nucleus of resources used to acquire the resources needed to perform the mission of the revolving fund.

C. Revenues are generated in DoD revolving funds from reimbursable actions on behalf of authorized beneficiaries. Those revenues result in collections of funds. The funds collected are used to pay for the acquisition of resources needed to operate the revolving fund. In revolving funds that are apportioned by the OMB, the use of the budgetary resources associated with those collections to incur obligations is limited to the amount of obligation authority available for the fiscal period.

D. Revolving funds subject to apportionment are apportioned on an obligation basis. An SF 132, "Apportionment and Reapportionment Schedule," must be submitted to the OMB for approval of the amount of obligational authority needed for the operation of the revolving fund for a fiscal period. A fiscal period may be a quarter of a fiscal year or a full fiscal year.

E. Budgetary resources available for apportionment action include:

1. New budget authority (appropriations)
2. Available unobligated balances at the beginning of the fiscal period.

3. Reimbursements and other income (also known as offsetting collections credited to the appropriation or fund account).

4. Recoveries of prior year obligations.

5. Restorations.

6. Contract authority.

F. The apportionment of anticipated reimbursements as obligational authority in no way authorizes a revolving fund to obligate in excess of the contract authority, borrowing authority, or reimbursable orders received from within the Federal Government and advances received for orders outside the Federal Government. Orders from state, local, and foreign governments are considered to be orders from the public.

G. In the case of loan programs, budgetary resources available for obligation from loan repayments and interest on loans are comprised of actual collections when authorized to be used. Loan repayments in the form of loans receivable and interest receivable are amounts due but not collected. These amounts are not available for obligation until collected.

H. Other assets, whether of a working capital nature such as inventories of stock or of a fixed asset nature, are not considered as a budgetary resource. Such assets, therefore, do not enter into the determination of unobligated balances. However, claims against budgetary resources, such as accounts payable and undelivered orders, are obligations of a revolving fund and must be subtracted from unobligated balances when incurred. Obligations for the procurement of inventories, as well as for the acquisition of other revolving fund assets, must be recognized, recorded, and reported along with other obligations.

I. Some revolving funds, particularly public enterprise funds, have budget authority exclusively for the fund that is technically outside the fund as long as it remains "undrawn." This concept may apply to the authority to borrow from the public, authority to borrow from the Department of the Treasury, and sometimes contract authority.

J. The amount of obligational authority apportioned or the available balance of obligational authority may be less than the total budgetary resources available in a revolving fund. The difference, which cannot be obligated unless it is apportioned, may be characterized as either an unapportioned balance of a revolving fund or a restrictive withholding. The concept of an unapportioned balance is one of preserving a portion of the fund's capital so it may continue to revolve.

K. Incurring obligations or authorizing the incurrence of obligations in excess of apportioned budgetary resources shall be reported as an apparent violation of the administrative control of funds provisions contained in Volume 14 of this Regulation. This

reporting requirement applies whether or not a revolving fund has unapportioned budgetary resources or nonbudgetary assets greater than the amount of the deficiency.

L. Each revolving fund is required to submit a separate set of reports to the Department of the Treasury as described in Volume 6 of this Regulation. Therefore, the data required for each revolving fund to prepare these reports shall be identified within the DoD Component's accounting system.

M. DoD public enterprise revolving funds include but are not limited to the Special Defense Acquisition Fund, Defense Production Guarantees Fund, and the Homeowners Assistance Fund. DoD intragovernmental revolving funds are the Defense Business Operations Fund, the Pentagon Reservation Maintenance Fund, Washington Headquarters Services Building Maintenance Fund, and the Army Conventional Ammunition Working Capital Fund.

1. The Special Defense Acquisition Fund is funded by the use of a limited amount of certain foreign military sales collections as authorized by Congress. The fund is used to acquire items needed in anticipation of sales to foreign governments. The proceeds from the sales of the fund are used to acquire items in anticipation of future sales. Budgetary resources provided from sales to customers are not available for use until collections have occurred and OMB has approved apportionment of funds by category of item. The apportionment of funds by the OMB provides control over the obligations for the acquisition of approved categories of items. The Special Defense Acquisition Fund has been assigned the symbol 11X4116 by the Department of the Treasury. Figure 1-3 is an overview of the operation of the Special Defense Acquisition Fund.

2. The Defense Production Guarantees Fund was funded by borrowing authority and interest collections. This fund is used to repay loans defaulted by defense contractors that have been guaranteed by the U.S. Government. Obligations and liabilities shall be recorded based upon documentary evidence that a qualifying loan has been defaulted and the DoD Component is required to repay the loan. An accounts receivable from the defense contractor shall be recorded in the amount of funds paid to satisfy the defaulted loan at the time of disbursement. Budgetary resources associated with collections from the defense contractor are not available until after the funds are collected and apportioned by the OMB. The Defense Production Guarantee Fund has been assigned the symbol X4080 by the Department of the Treasury. Figure 1-4 is an overview of the operation of the Defense Production Guarantee Fund.

3. The Homeowners Assistance Fund, Defense is funded by borrowing authority and appropriations. The fund is used to acquire homes under certain criteria when a DoD installation is closed. The fund acquires homes as assets and assumes the related liabilities. All properties acquired by the Homeowners Assistance Fund are managed and disposed of by the U.S. Army Corps of Engineers. At the time of sale of a property, revenues are recorded and gains and losses on the disposition of the asset are determined. Costs incurred related to a property

shall be capitalized as an increase in the amount of the asset whenever value is added to the property. Under certain conditions, losses incurred on private sales of qualified property may be reimbursed as operating expenses of the fund. Certain other operating expenses may be authorized. The budgetary resources provided from sales or lease of property are only available for obligation after collection and when apportioned by the OMB. The Homeowners Assistance Fund has been assigned the symbol X4090 by the Department of the Treasury. Figure 1-5 is an overview of the operation of the Homeowners Assistance Fund.

4. The Defense Business Operations Fund has been established to fund the operation of certain support functions within the Department of Defense. This Fund was formed from five previously existing industrial funds, four previously existing stock funds, and selected Defense Agency support functions that were previously funded through direct appropriations. The Defense Business Operations Fund provides support functions such as inventory, maintenance, communications, depot maintenance, shipyards, military airlift and sealift. Services are provided on a reimbursable basis to authorized customers. The accounting requirements for the Defense Business Operations Fund are contained in Volume 11B of this Regulation. Figure 1-6 is an overview of the operation of this Fund.

5. The Army Conventional Ammunition Working Capital Fund was chartered to finance the loading, assembly, and packing operations for the manufacturing of conventional ammunition for the Department of Defense. This revolving fund was not provided with a corpus but instead performs work with funds from advances received associated with customer orders for ammunition. Apportioned budgetary resources for the fund include reimbursements from customers, unobligated balances brought forward, and recoveries of prior year obligations. Budgetary resources associated with customer orders received are available for obligation within the apportioned amount during a fiscal period. The Army Conventional Ammunition Working Capital Fund has been assigned the symbol X4528 by the Department of the Treasury. Figure 1-7 is an overview of the operation of the Army Conventional Ammunition Working Capital Fund.

010306. Special Funds.

A. There are two types of special fund accounts.

1. Receipt Accounts. Special fund receipt accounts are credited with receipts from specific sources that are earmarked by law for a specific purpose, but which are not generated from a continuing cycle of operations. At the point of collection, these receipts are either available for transfer to a special fund expenditure account or are not available for transfer depending upon statutory authority. Obligations and expenditures shall not be recorded in a special fund receipt account.

2. Expenditure Accounts. Special fund expenditure accounts are established to record amounts appropriated or otherwise made available by transfers from a

special fund receipt account to be obligated and expended for special programs in accordance with specific provisions of law.

B. Special fund receipts shall be accounted for in the special fund receipt account until made available for obligation and expenditure in a special fund expenditure account. Special fund receipts fall into two categories:

1. Receipts that are not available for use in a special fund expenditure account. Some special fund receipts are not available until appropriated to an expenditure account by the Congress. Receipts credited to some other special fund receipt accounts are required by the authorizing legislation to be transferred in whole or in part to other accounts before an appropriation warrant can be issued by the Department of the Treasury. Still other special fund receipts may not be available for use because a congressional limitation has been established on the amount that would normally be otherwise available for obligation and expenditure.

2. Receipts that are authorized by legislation to be immediately available for transfer to an expenditure account. These receipts are immediately available in their entirety to a single agency for transfer to a special fund expenditure account for obligation and expenditure without further action by the Congress. An available receipt account carries the same symbolization as its corresponding expenditure account in that an alphanumeric character (usually an "X") is inserted to indicate the period of availability of the funds for obligation.

C. Table 1-5 illustrates the accounting entries for special fund receipts that are not available for use. The documentation supporting this entry is a cash collection voucher.

D. The accounting for special fund expenditure accounts shall be in accordance with the provisions of this Regulation. However, each special fund must be viewed as a unique fund in light of any special provisions in the enabling legislation. An example of a Department of Defense special fund account is the Wildlife Conservation account.

**ACCOUNTING ENTRIES FOR SPECIAL FUND RECEIPTS
NOT AVAILABLE FOR USE**

Dr	1011	Funds Collected
	Cr	5000 Revenue

Table 1-5

010307. Deposit Fund Accounts. These are accounts established to account for collections that are either held temporarily and later refunded or paid upon administrative or legal determination as to the proper disposition thereof, or held by the Government as banker or agent for others and paid out at the direction of the depositor. Deposit funds are liabilities of the Federal Government. The accounts are not included in the budget totals because the amounts are not available for government purposes. Deposit funds are not available for the incurrence of any Federal Government obligations or payment of any Federal Government obligations. Various types of deposit funds include:

A. Moneys withheld by the Government from payments for goods and services received. This type of transaction may be treated as a deposit fund liability only when a budgetary account has been charged and the funds are being held by the Government pending payment; for example, payroll deductions for savings bonds or State and local income taxes.

B. Deposits received from outside sources for which the U.S. Government is acting solely as a banker, fiscal agent, or custodian.

C. Moneys held by the U.S. Government awaiting distribution on the basis of a legal determination or investigation. This category includes moneys in dispute (between the Government and outside parties) when ownership is in doubt and there is no present basis for estimating ultimate distribution.

D. Unidentified remittances shall be credited as suspense items outside the budget (deposit fund suspense account X6875) unless there is a reasonable presumption that they will be credited ultimately to a receipt, appropriation (expenditure), or fund account within the budget, in which case amounts shall be credited to the receipt clearing accounts.

E. Table 1-6 illustrates the most common entries used for recording deposit fund receipts. The documentation supporting this entry includes cash collection vouchers, and journal vouchers.

ACCOUNTING ENTRIES FOR RECORDING DEPOSIT FUND RECEIPTS

Dr	1011	Funds Collected
	Cr	2411 Deposit Fund Liabilities

Table 1-6

010308. Trust Funds.

A. There are three types of trust fund accounts.

1. Trust fund receipt account. Trust fund receipt accounts are credited with receipts generated by the terms of a trust agreement or statute. At the point of collection, these receipts are available for transfer to a trust fund expenditure account or are not available for transfer depending upon the terms of the trust agreement or statutory authority.

2. Trust fund expenditure account. Trust fund expenditure accounts are established to record amounts appropriated or otherwise made available by transfer from a trust fund receipt account to be obligated and expended in carrying out the specific purposes or programs in accordance with the terms of the trust agreement or statute. Funds transferred or appropriated to a trust fund expenditure account are normally available for obligation and expenditure within the limits imposed by the trust agreement or authorizing statute.

3. Trust revolving fund. A trust revolving fund is a single account that is authorized to be credited with receipts and incur obligations and expenditures in support of a continuing cycle of business-type operations in accordance with the provisions of the trust agreement or statute. Trust revolving fund receipts are available for obligation and expenditure without further action by the Congress. Figure 1-8 provides an overview of the operation of a trust revolving fund.

B. In general, DoD trust funds authorized to incur obligations and expend receipts have been exempted from apportionment by the OMB. However, the Defense Commissary Agency Surcharge Collections, Sales of Commissary Stores trust revolving fund is subject to apportionment by the OMB. Accounting for trust fund expenditure accounts and trust revolving funds shall be in accordance with the provisions of this Regulation. However, each trust fund must be viewed as a unique fund in light of any special provisions in the trust agreement or the enabling legislation. Because of the unique nature and the magnitude of impact of the Deposits, Advances, Foreign Military Sales, Executive trust fund, special accounting requirements have been established in Volume 15 of this Regulation.

OVERVIEW - BASIC CONCEPT OF CONSOLIDATED WORKING CAPITAL

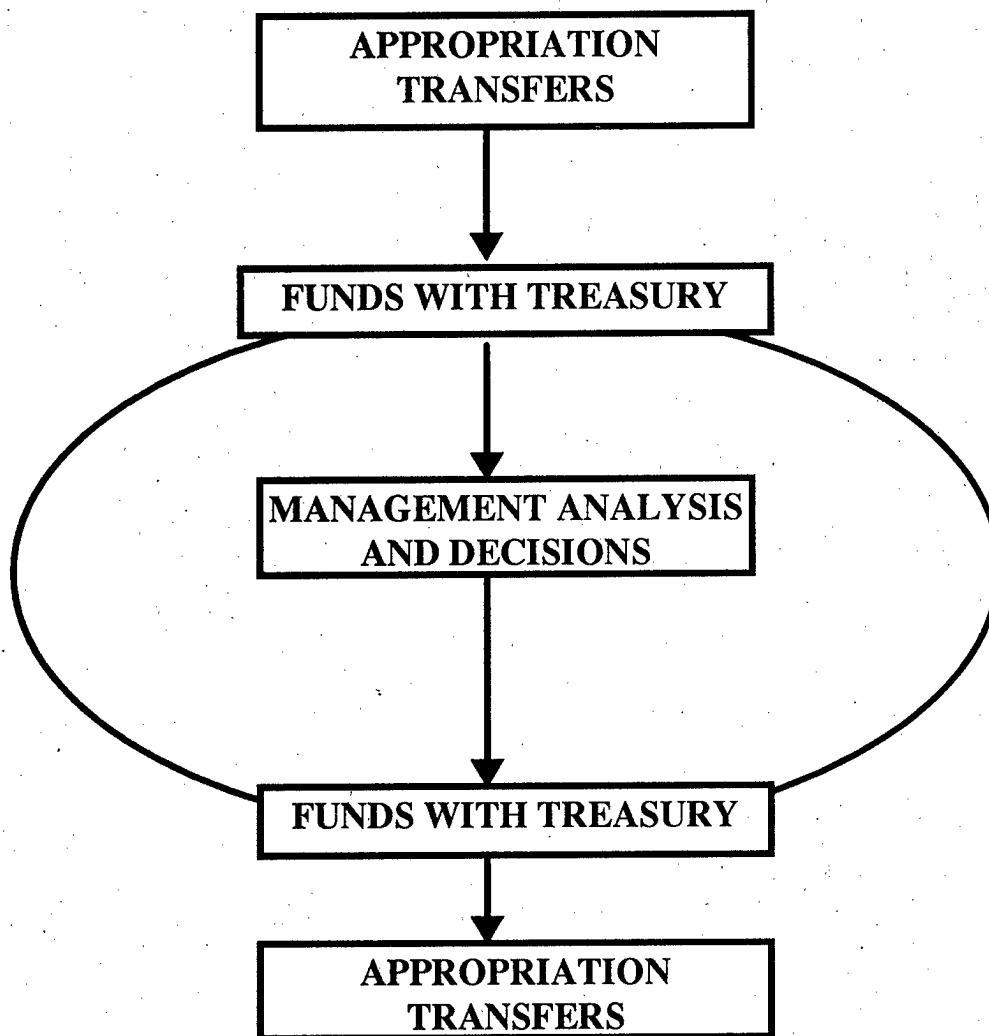


Figure 1-1

OVERVIEW - BASIC CONCEPT OF REVOLVING FUNDS

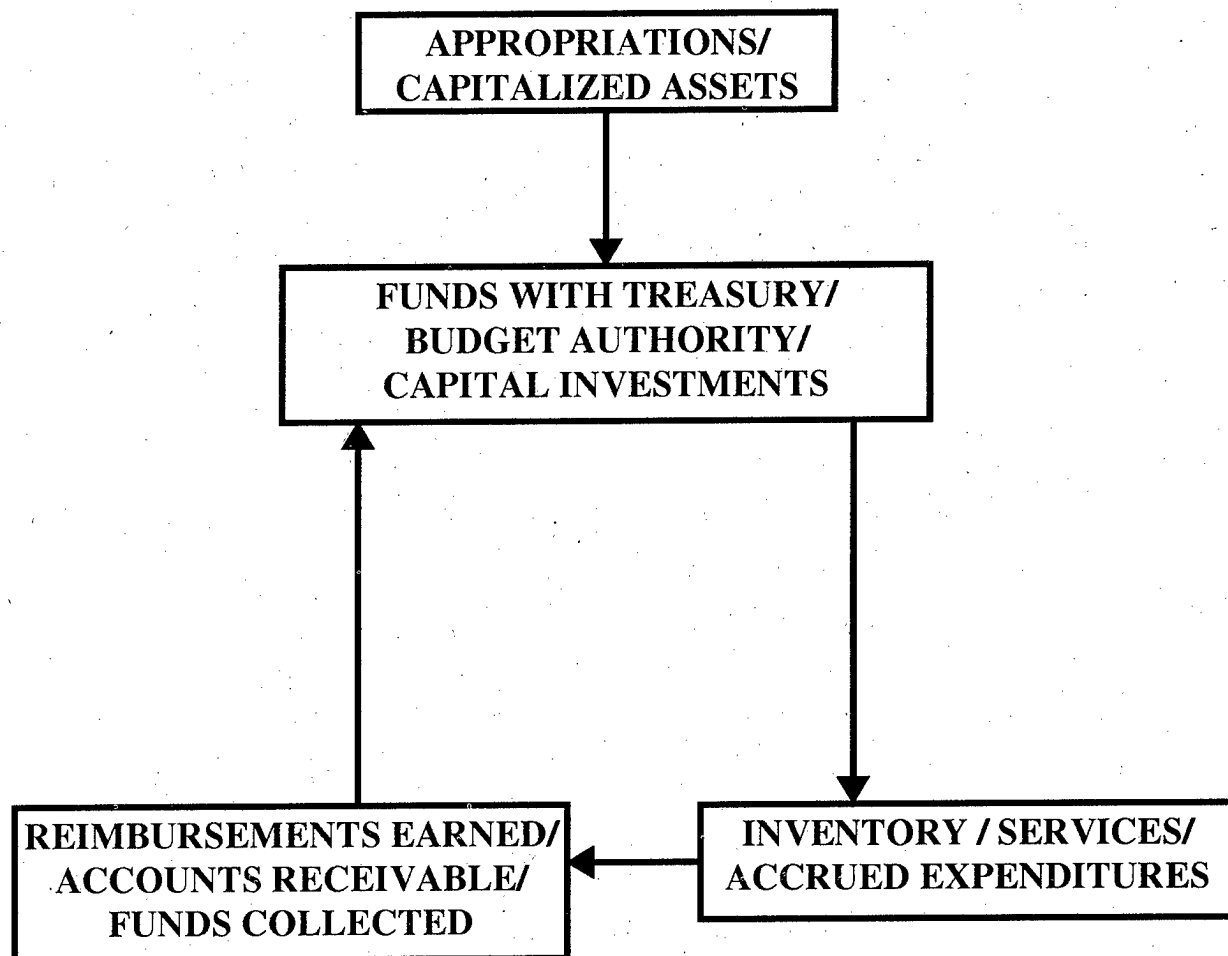


Figure 1-2

OVERVIEW - BASIC CONCEPT OF SPECIAL DEFENSE ACQUISITION FUND

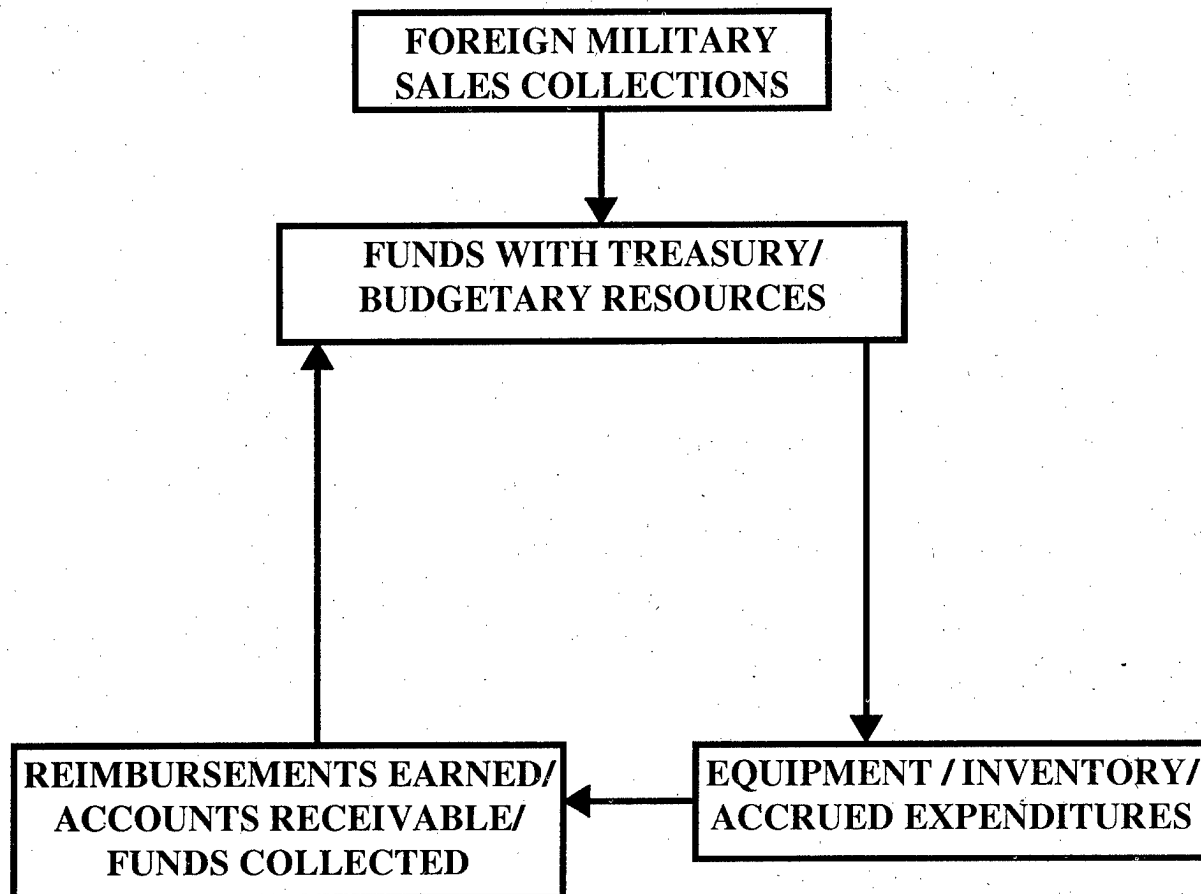


Figure 1-3

OVERVIEW - BASIC CONCEPT OF DEFENSE PRODUCTION GUARANTEE FUND

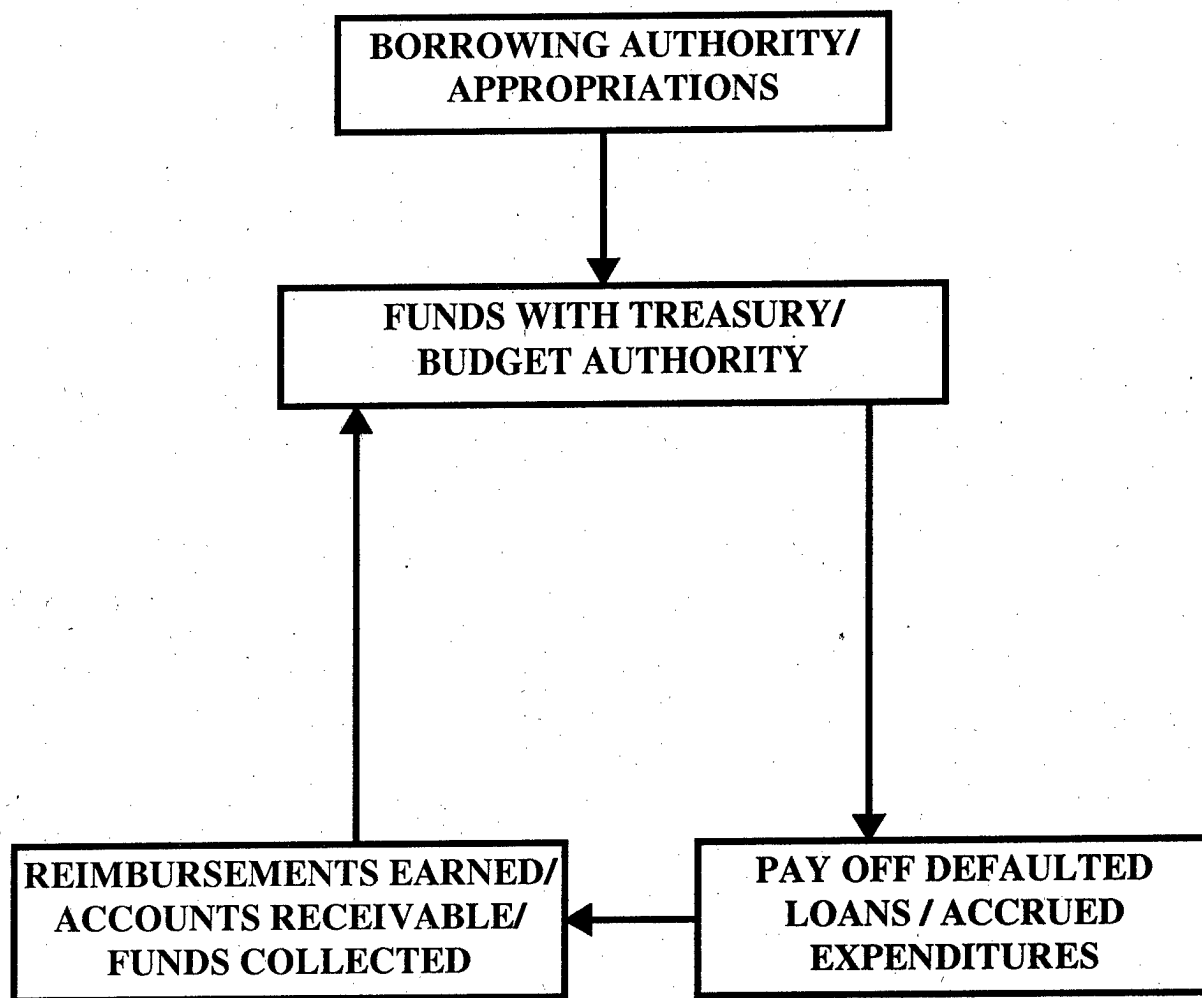


Figure 1-4

OVERVIEW - BASIC CONCEPT OF HOMEOWNERS ASSISTANCE FUND

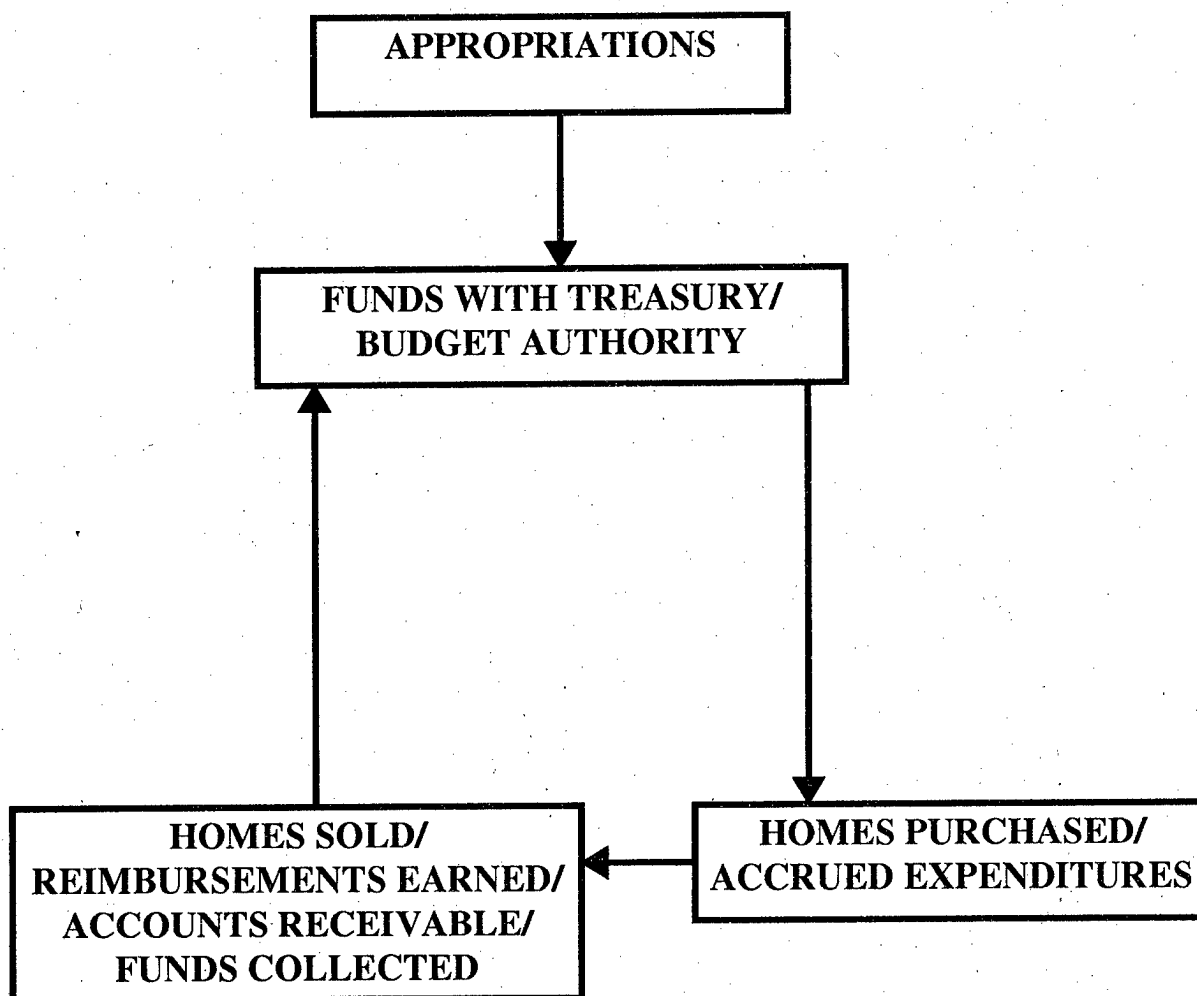


Figure 1-5

OVERVIEW - BASIC CONCEPT OF THE DEFENSE BUSINESS OPERATIONS FUND

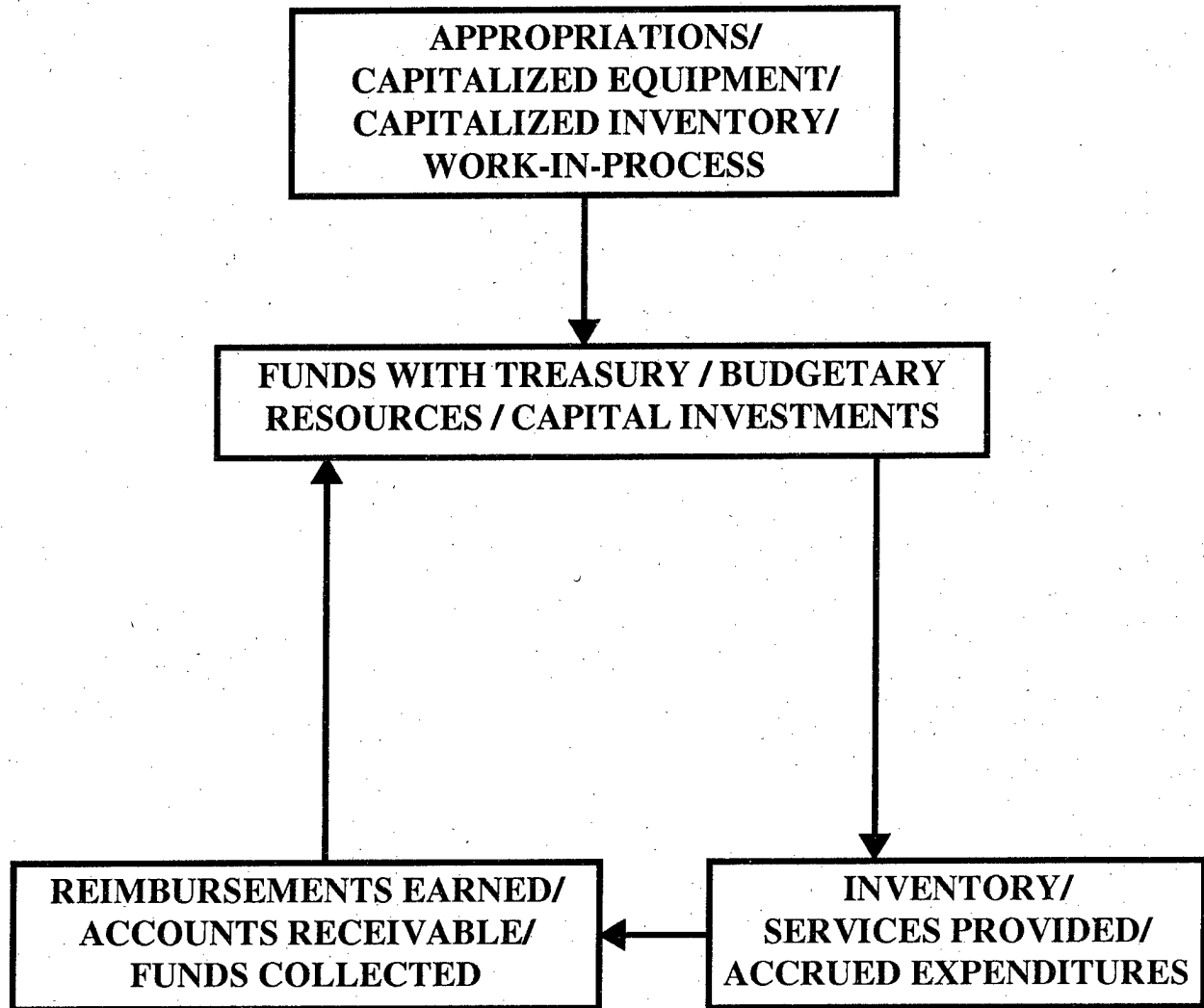


Figure 1-6

**OVERVIEW - BASIC CONCEPT OF ARMY CONVENTIONAL
AMMUNITION WORKING CAPITAL FUND**

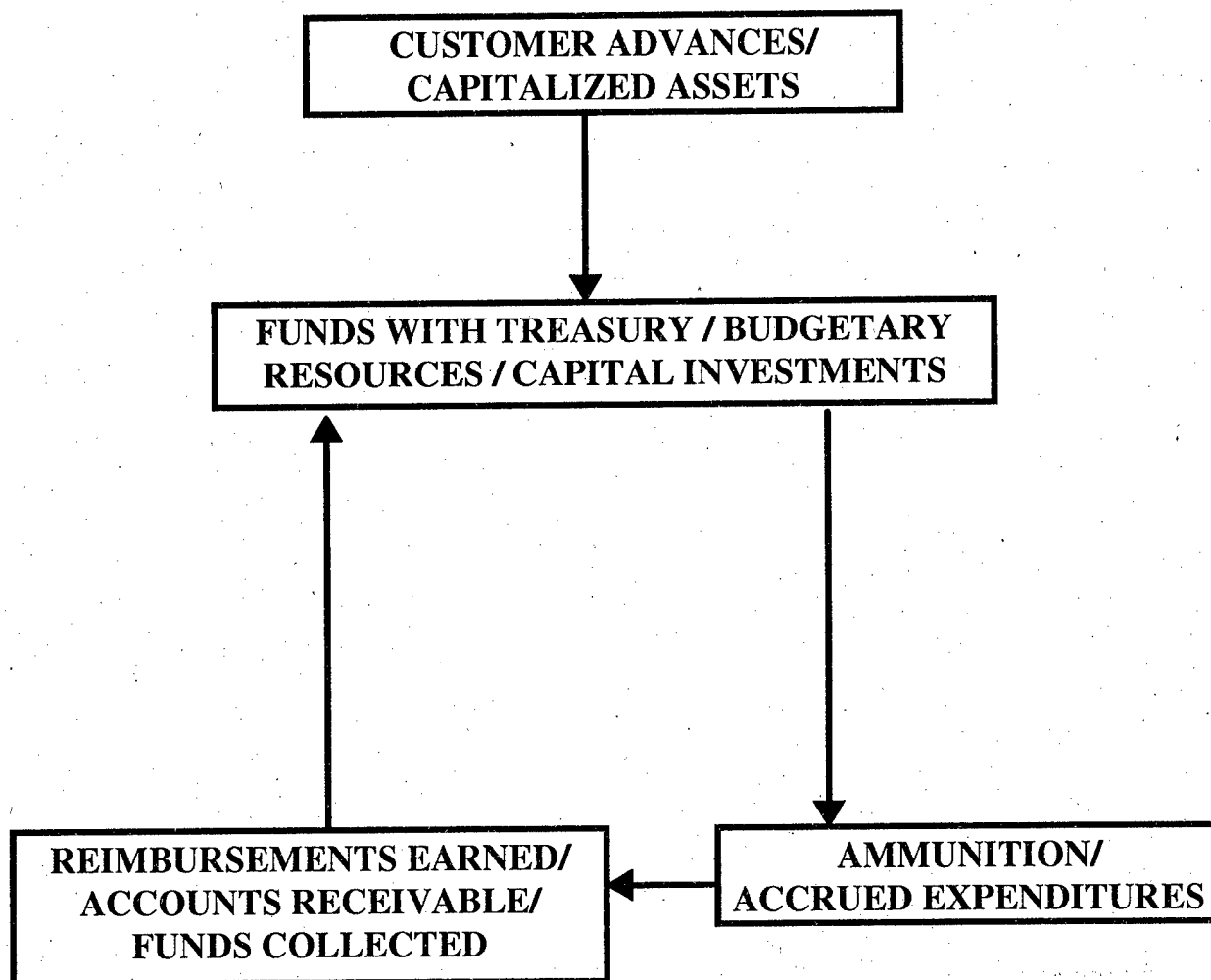


Figure 1-7

OVERVIEW - BASIC CONCEPT OF TRUST REVOLVING FUNDS

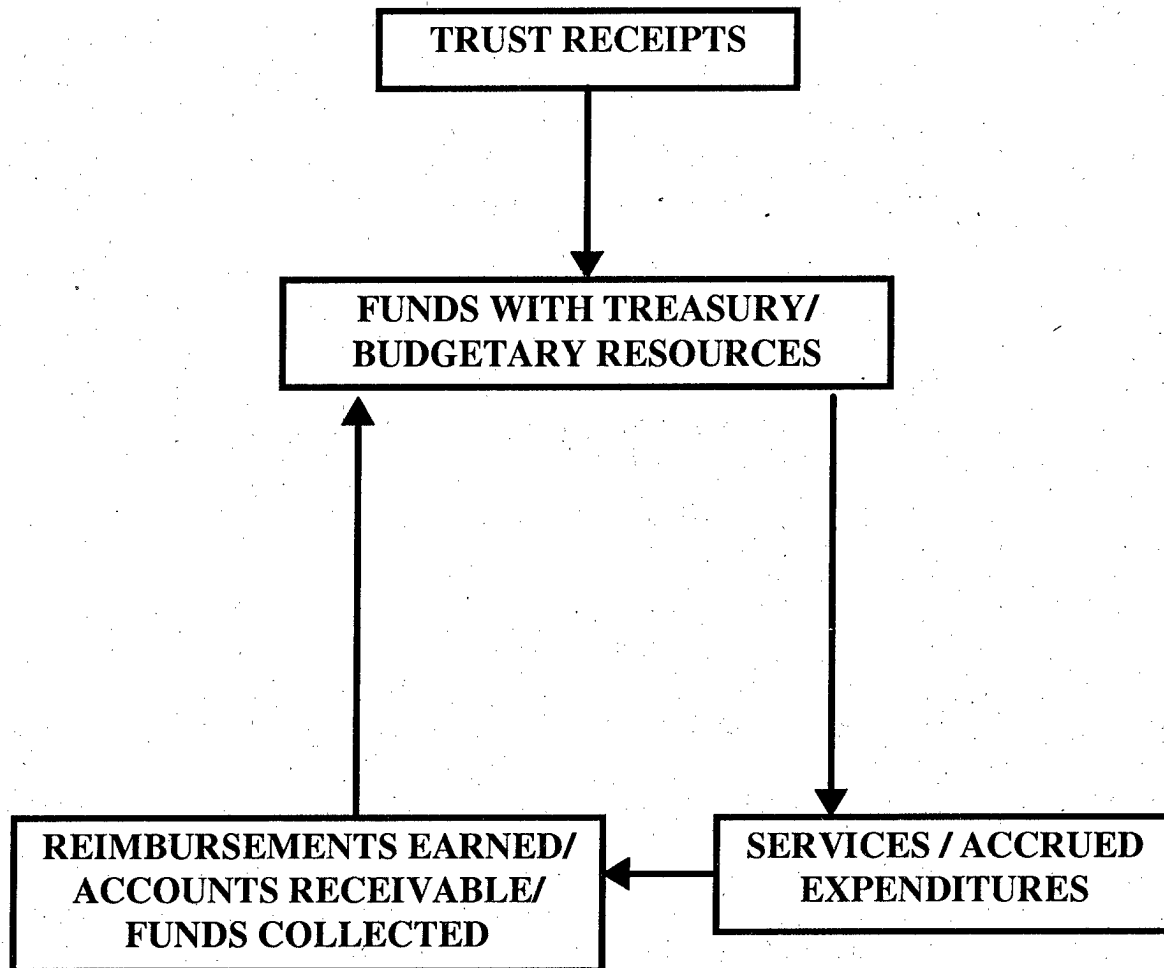


Figure 1-8

CHAPTER 2

PRODUCTIVITY GAIN SHARING0201 OVERVIEW

020101. Purpose. This Chapter establishes the financial procedures to manage productivity gain sharing (PGS). This policy applies to organization-wide gain sharing applications in Defense Business Operations Fund and unit cost activities.

020102. General. Defense Business Operations Fund activities, and those activities operating under unit cost resourcing, are encouraged to implement organization-wide PGS plans, in accordance with DoD Instruction 5010.34, "Productivity Enhancement, Measurement and Evaluation - Operating Guidelines and Reporting Instructions." An "organization-wide PGS plan" refers to a single plan in which (a) the focus is the overall productivity of the entire activity and (b) all employees of the activity participate. (An example of an "activity" is a Naval aviation depot; "organization-wide" means all directorates and offices of the depot.)

0202 POLICY AND PROCEDURES

Productivity gain sharing will be based on activity achievement of reduced total cost per output for products or services over the current fiscal year while, at the same time, reaching specified levels of output quality, timeliness, quantity, and customer satisfaction. Stated another way, savings from PGS will be shared with eligible civilian employees when an activity achieves increased efficiency while maintaining or improving effectiveness. Increased efficiency, for PGS purposes, results when the actual unit cost is less than the budgeted unit cost for that activity. Increased efficiency at the expense of decreased effectiveness, however, will not be rewarded. Therefore, predetermined effectiveness measures (such as output quality, timeliness, quantity, and customer satisfaction) must be maintained. While it often is beneficial to determine the cause(s) for productivity increases, employees will share those gains regardless of whether the gain could be attributed to a cause other than directly to employees. The concept is that employee participation is essential to realize productivity gains from new processes and equipment.

0203 PLANS

Activities will develop individual organization-wide PGS plans based on their mission functions. When applicable, the development of PGS plans shall include representation by employees' union(s). The PGS plan will be approved by the activity's higher headquarters (i.e., major command level), and encompass, but not be limited to, the following criteria:

020301. Measurement. Organization-wide gain sharing designs must include predetermined and measurable efficiency and effectiveness measures consistent with Defense Business Operations Fund and unit cost policies. The primary consideration in gain sharing measurement is the occurrence of increased efficiency without decreased effectiveness. Net operating results will not be used to measure productivity gains since annual operating cost budgets may forecast activities to incur an annual net operating loss.

A. Efficiency Measures. Efficiency measures will be in terms of total cost per output goals consistent with annual operating budgets. Costs paid directly from appropriated funds, such as mobilization and base closure costs, are not included in unit cost goals and, therefore, will not be included in total cost per unit of output calculations.

B. Effectiveness Measures

1. Effectiveness measures will reflect attributes of the final product or service produced by the activity and received by the customer. (Effectiveness measures should be consistent with, but not necessarily identical to, activity measures developed for DoD performance budgeting.) These include:

- Quality
- Timeliness
- Quantity
- Customer Satisfaction

2. In some cases, measures of a subprocess effectiveness will be included when these indicators have a predictable major impact on a final product or service. For example, inventory accuracy in distribution depots is a measure of a subprocess that has an impact on the output (lines received/issued).

C. Costs. All costs included in the unit cost goals also will be included in PGS determinations. These costs include:

- Direct/Indirect Labor
- Military Personnel
- Direct/Indirect Material
- Capital Depreciation
- General and Administrative (Overhead)

D. Performance Leveling Factor. Performance evaluation indicators will be used to ensure that quality is not sacrificed for increased production. Performance goals and the performance leveling factor will be stated in PGS plans. Performance above the established goals will increase the award while performance below those goals will decrease the award.

020302. Payout

A. The PGS payout will be based on the extent to which savings exceed the budgeted unit cost goals for the current fiscal year while maintaining predetermined performance effectiveness. Unit cost goals are issued by the USD(C) to DoD Components, which are responsible for reallocating unit cost goals to subordinate activities.

B. Under unit cost, budgets authorize activities to incur costs to produce an output. Budgets are subject to continuing adjustment as changes affecting cost occur. However, in PGS plans, a budget and unit cost goals must be firmly established and agreed upon by the activity and its headquarters prior to the execution fiscal year. An activity that implements PGS may negotiate with its headquarters fixed annual unit cost goals for a period up to 3 years. The agreed upon budget and unit cost goals will be the basis upon which productivity gains are measured during the execution fiscal year and payouts calculated. The DoD Component still will be required to meet the overall unit cost goals established by the USD(C).

C. Activities may share up to a maximum of 50 percent of achieved savings with their eligible employees. To ensure that performance goals are achieved, the employees' share may be adjusted by the performance leveling factor(s) stated in the PGS plan. The remaining percent of the activity's savings will remain in the Fund or operating budget and will be reflected in unit cost goals and price reductions to the customers in the next fiscal year.

1. Although not mandatory, it is recommended that shares be of equal payment for all eligible employees regardless of an individual's pay grade, position within the activity, or hourly wage.

2. Plans will include a specified period of time that an employee must contribute to the work effort (or be assigned at the activity) for eligibility to receive a share of the payout. Plans also will specify as to whether the employee is eligible or forfeits his/her share if the employee leaves the organization prior to the payout.

3. Contribution to the work effort shall be defined as hours worked. Individual activity plans may address the issue of including or excluding overtime hours. Absences (annual, sick, traumatic, administrative leave, or other work absences) will not be included.

4. Employees may elect to receive a time off award in lieu of cash payment, or a combination of a time off award and pay. The time off award option will be granted at the discretion of the activity commander based upon workload requirements at the time. The amount of time off granted will be derived by dividing the value of the employee's gain share award by his/her hourly rate plus an average factor for benefits.

D. Payout must be made on an annual basis. Net operating results, positive or negative, will not be a basis or limitation on gain share payouts.

E. It is possible for an activity to earn a gain share payout and not have the funds to pay the gain share at the local level. If that occurs, the activity will obtain approval and funds for the payout from its higher headquarters.

0204 ACCOUNTING

020401. All costs associated with gain sharing programs (e.g., cash payouts, time off awards and related administrative costs) will be recorded as an operating expense in the year the expense for the payout is incurred and included in the total cost per output computation for that fiscal year.

020402. Payouts to employees, whether in the form of cash or time off awards, shall be classified as a personnel compensation expense in accordance with Volume 4 of this Regulation. A liability shall be recorded for that portion of a payout which is due, but not yet paid, in accordance with Volume 4 of this Regulation.

0205 AUDIT

Activity PGS plans and payouts will be subject to audit in accordance with prescribed audit policies.

CHAPTER 3

CONTRIBUTIONS FOR DEFENSE PROGRAMS, PROJECTS, AND ACTIVITIES0301 INTRODUCTION

030101. Purpose. This Chapter prescribes the overall policy and assigns responsibilities for the acceptance, receipt, use, and reporting of monetary and non-monetary contributions (real and personal property and services) to the Department of Defense (DoD) under Title 10, United States Code, section 2608. Authorities to accept contributions under Title 10, United States Code, section 2350j and Public Law 103-335, section 8053, are not included in this chapter.

030102. Defense Cooperation Account. A special account is established in the Treasury of the United States for receipt of monetary contributions and proceeds from the sale of real or personal property contributions accepted by the Secretary of Defense, or designee under Title 10, United States Code, section 2608.

0302 AUTHORITY

030201. Secretary of Defense. Title 10, United States Code, section 2608 provides authority for the Secretary of Defense (SECDEF) to accept from any person, business, foreign government, or international organization, any contribution of money or real or personal property made by such person, business, foreign government, or international organization for use by the Department.

030202. Under Secretary of Defense (Comptroller) (USD(C)). Authority to accept such contributions has been delegated to the USD(C), who also serves as the single point of contact in the Department for the Departments of State and the Treasury with respect to all matters involving the receipt, administration and distribution of contributions of funds from foreign countries for defense programs.

030203. DoD Components. The DoD Components, have authority to accept non-monetary contributions from friendly persons, businesses or international organizations.

0303 CONTRIBUTIONS030301. Non-Monetary Contributions

A. Offers of non-monetary contributions from friendly persons, business, foreign governments or international organizations may be accepted by the DoD Component.

Prior to acceptance of non-monetary contributions the accepting DoD Component shall document the following details and maintain such documents for reporting identified in this chapter.

1. A description of the contribution.
2. Estimated value of the contribution.
3. The name of the organization, individual or business contributing the item.
4. The operational requirement for the contribution, if any requirement exists.
5. Justification that acceptance of the contribution is preferable to obtaining the item through existing DoD supply channels, if a like requirement of the Department exists.

B. Valuation methods that generally should be used to determine the value of non-monetary contributions are as follows:

1. The value of the contributed item as reported by the contributor.
2. The recent DoD acquisition price for a similar item, if normally acquired by the Department.
3. The current DoD standard price for a similar item, if normally acquired by the Department.

C. If requested, the DFAS Deputy Director for Accounting (DFAS-HQ/A) will assist the accepting DoD Component in establishing the value of non-monetary items accepted.

030302. Monetary Contributions. The DoD Components shall notify the USD(C) or designee of all monetary contributions prior to acceptance of such contributions. As a rule, monetary contributions should be accepted without restrictions, i.e., without designations for specific programs or purposes. Offers of monetary contributions with restrictions require written approval from the USD(C) prior to acceptance. Copies of all notifications shall be sent to the DFAS (Attention: DFAS-HQ/AE).

A. Contributions in Cash

1. The DoD Component shall deposit all cash contributions, including proceeds from the sale of any contributed property, to the Defense Cooperation Account as soon as practical.

2. Consistent with sound cash management practices, any cash received by the DoD Components shall be either converted into a check and forwarded to the DFAS using overnight delivery service, or deposited into a Treasury General Account with funds transferred to the Defense Cooperation Account via electronic funds transfer--whichever process results in the earliest deposit of funds into the Defense Cooperation Account.

3. The DoD Component shall ensure that any funds forwarded by electronic funds transfer are deposited within 24 hours into the Defense Cooperation Account under ALC 9720010 and Account Number 97X5187.1. Additionally, the DoD Component shall notify the DFAS (DFAS-HQ/AE) prior to forwarding any funds electronically.

4. Documentation associated with cash contributions, including copies of deposit tickets, and the original of correspondence from contributors shall be forwarded by the DoD Component within 24 hours of the deposit using overnight delivery service, to the DFAS, ATTN: DFAS-HQ/AE.

B. Contributions by Check

1. Checks received by DoD officials shall be made payable to the "United States Treasury." The reference line on the check should indicate the "Defense Cooperation Account."

2. Checks received by DoD officials shall be forwarded to the DFAS ATTN: DFAS-HQ/AE, Investment Trust Directorate, Room 200, 1931 Jefferson-Davis Hwy, Arlington, VA 22240-5291, or electronically transferred to the Defense Cooperation Account in accordance with paragraph 100302A4 above as applicable. The DFAS shall deposit such funds within 24 hours of receipt into the Defense Cooperation Account under ALC 9720010 and Account Number 97X5187.1.

3. Documentation associated with check contributions, including copies of checks, deposit tickets, and the original of any correspondence from contributors shall be forwarded by the DoD Component within 24 hours of the deposit using overnight delivery service, to the DFAS, ATTN: DFAS-HQ/AE.

C. Contributions by Wire Transfer

1. Contributions by wire transfer eliminates delays in receiving deposits and provide the most efficient preliminary accounting information for investment purposes.

2. Donors may make contributions to the Defense Cooperation Account via electronic funds transfer from commercial banks to "Account Number 1" in the Federal Reserve Bank of New York (as Fiscal Agent of the United States). The Federal Reserve Bank of New York shall credit the Department accordingly, using the format in Figure 3-1.

3. Documentation associated with wire transfer contributions, including the original of any correspondence from contributors shall be forwarded within 24 hours of the deposit using overnight delivery service, to the DFAS ATTN: DFAS-HQ/AE.

D. Contributions in Foreign Currencies (Cash or Check). When a DoD Component becomes aware of a planned, large contribution (\$1 million or more) to be made in foreign currency, the DoD Component shall:

1. Request the donor to provide as much lead time as possible regarding the amount of the contribution and the estimated date the contribution will be made.

2. Advise the DFAS ATTN: DFAS-HQ/AE of any planned contributions and continue to keep that office advised of the status until the currency transfer is made by the donor.

3. Request the donor to credit the foreign currency contribution to the Federal Reserve Bank of New York "Account Number 1" via the donor's central bank. If the Federal Reserve Bank does not maintain an account with a particular donor, the DoD Component should seek guidance from the DFAS-HQ-A, for appropriate alternative arrangements.

4. Foreign checks received by DoD officials shall be converted to a check denominated in U.S. dollars prior to being forwarded to the DFAS or transferred electronically into the Defense Cooperation Account.

5. Cash and checks received by DoD officials in countries not served by a DoD disbursing officer shall be delivered to the nearest U.S. Embassy within 24 hours of receipt for deposit in the Defense Cooperation Account, under ALC 97200010 and Account Number 97X5187.1.

0304

REPORTING REQUIREMENTS

030401. Not later than 10 days after the end of each quarter, each DoD Component shall submit a report, including negative reports, to the DFAS ATTN: DFAS-HQ/AE, Room 200, 1931 Jefferson- Davis Hwy, Arlington, VA 22240-5291, that identifies the following:

A. Non-Monetary Contributions Received

1. A description of each item received.
2. The value of each item received, including the valuation method used.
3. The name of the contributor for each item received.
4. The date each item was received.
5. Details of any restrictions, conditions or other relevant information regarding each contribution.
6. If two more like items are received from different sources the items are to be accounted for separately to permit identification of items received.

B. Non-monetary Contributions Sold

1. A description of each item sold.
2. The proceeds of each item sold.
3. The name of the contributor for each item sold.
4. The date each item was sold.
5. The name of the purchaser for each item sold.
6. If two or more like items are received from different sources the items are to be accounted for separately to permit identification of items when sold.
7. Details of any other relevant information regarding each item sold.

C. Monetary Contributions Received

1. The dollar amount of each contribution.
2. Name of the donor for each contribution received.
3. The date each item was received.

4. Details of any restrictions or conditions or other relevant information regarding each contribution.

030402. Not later than 15 days after the end of each quarter, the DFAS shall prepare and forward to the USD(C) a report to be submitted to the Congress that provides the following information.

A. Summary values of monetary and non-monetary contributions accepted during the month.

B. A description of all property valued at more than \$1 million. In determining whether the \$1 million threshold has been met, the following procedures shall be used:

1. The value of similar items accepted during the quarter shall be added together.

2. The value of components which, if assembled, would comprise all or a substantial portion of an item or facility shall be added together.

0305 INVESTMENT PROCEDURES

030501. General. Consistent with good cash management practices, funds in the Defense Cooperation Account shall be invested in Government securities until distribution is authorized. Generally, investments are limited to U.S. Treasury bills maturing in 90 days or less.

030502. Purchasing Government Securities. The DFAS ATTN: DFAS-HQ/AE shall follow the procedures below for purchasing Government securities.

A. Daily, after all contributions and other transactions have been entered into the Defense Cooperation Account, generate a Preclosing Trial Balance.

1. Verify the amount in account 1010, Fund Balance with Treasury, with the amount entered in the Cash Book for the same day.

2. Research and correct any differences between account 1010 and the Cash Book immediately.

B. A security investment can be purchased if account 1010 has a balance sufficient to purchase a \$10,000 Treasury bill or a \$1,000 U.S. Treasury note or bond. Information on prices, maturities, and yields of U.S. Treasury securities generally can be found in the financial section of major newspapers.

- C. Select a U.S. Treasury security from those available.
- D. Complete the applicable sections in the Memorandum for Purchase or Sale of Investments.
- E. Telephone the Finance Management Branch, Financial Management Service (FMS), U.S. Department of the Treasury before 11:00 a.m. on the day of the investment at (202) 208-1450.
 - 1. The following information shall be provided to the Treasury representative.
 - a. Account: Defense Cooperation Account
 - b. Transaction Type: Purchase
 - c. Transaction Date: (Date the security will be purchased)
 - d. Type of Security: (Specify)
 - e. Date of maturity: (Specify)
 - f. Amount: (Amount available in account 1010, Fund Balance with Treasury)
 - 2. Complete the coordination section of the Memorandum for Purchase or Sale of Investments.
 - 3. Prepare a confirmation memorandum supporting the telephone call and fax a copy of the memorandum to the FMS Finance Management Branch normally on the same day as the transaction (Fax Number (202) 377-9597).
 - 4. The day after the transaction, call the Finance Management Branch to obtain the face amount, discount or premium, interest purchase (if any), and the price of the security purchased. Record this information on the Memorandum for Purchase or Sale of Investments. The Finance Management Branch should provide written confirmation of the information received by phone.
 - 5. Complete the Purchases Input Worksheet and update the Defense Cooperation Account system. Once this has been accomplished, a person other than the one

making input must sign the Purchase Input Worksheet confirming that the Defense Cooperation Account was updated for the Purchase.

030503. Selling Securities. The DFAS ATTN: DFAS-HQ/AE shall follow the procedures below to sell Government securities.

A. The Office of the Deputy Comptroller (Program/Budget) will determine the amount needed for payment or transfer. The Fund Manager, DFAS ATTN: DFAS-HQ/AE, normally shall sell securities to cover the amount needed if no securities mature on that day or contributions are not received. The decision as to which securities will be sold will depend on current economic conditions.

B. Select a security or securities for sale.

C. Complete the appropriate data elements on the Memorandum for Purchase or Sale of Investments.

D. Telephone the Finance Management Branch, Financial Management Service, U.S. Department of the Treasury before 11:00 a.m. on the day of the sale.

1. Provide the Treasury representative the following information:

- a. Account: Defense Cooperation Account
- b. Transaction Type: Sale
- c. Transaction Date: (Date security will be sold)
- d. Type of security: (Specify)
- e. Interest Rate: (Enter applicable rate only if Notes or Bonds are sold)
- f. Date of maturity: (Specify)
- g. Amount: (Minimum amount of proceeds from the sale required to cover any projected negative amount in account 1010)

2. Complete the coordination section of the Memorandum for Purchase or Sale of Investments.

3. Send a confirmation letter to the FMS Finance Management Branch via fax, normally on the same day as the transaction.

4. The day after the transaction date, call the FMS Finance Management Branch to obtain the principal amount and the interest earned. Record this information on the Memorandum for Purchase or Sale of Investments. The Finance Management Branch should provide written confirmation of the information received by phone.

5. Prepare Sale Input Worksheet and update the Defense Cooperation Account system. Once this has been accomplished, a person other than the one making the input must verify the input as soon as possible to ensure that the system has the correct data.

030504. Maturing Securities. The DFAS shall maintain a tracking system that identifies impending maturities and collections of securities for the Defense Cooperation Account and ensure appropriate reinvestment action is taken upon maturity of a security.

030505. Payments or Transfers. Payments or transfers from the Defense Cooperation Account must be authorized by the Congress. The USD(C) will provide withdrawal notification to the DFAS which shall ensure appropriate action is taken.

030506. Annual Reviews. The DFAS-HQ will conduct an annual review of the Defense Cooperation Account operations and transactions, including the purchase and sale of investments. The objective of the review will include compliance with the DoD and the Treasury policies and procedures, and adequacy of internal controls.

SAMPLE FORMAT
WIRE TRANSFERS TO THE U.S. TREASURY

The sample format for wire transfers for credit to U.S. Treasury Defense Cooperation Account (remaining blocks to be filled by the sender or the sending bank, in accordance with the attached wire transfer instructions) is as follows:

```

I      I
  (1)   (2)
I 021030004 I      I
  (3)   (4)   (5)
I      I      I      I
                (6)
I      /      I
  (7)  (8)
I TREAS NYC I CTR I
  (9)                (10)
IBNF=/AC-97200010 I OBI=to the Defense Cooperation Account I
                (10)
I(Acct. No. 97X5187.1) for Programs, Projects, and I
                (10)
I Activities from (name of donor)      I
  
```

FIGURE 3-1

**MONETARY CONTRIBUTIONS BY WIRE TRANSFER
INSTRUCTIONS**

The following is a guide for filling out the funds transfer form (Figure 3-1) which should be available at the sending financial institution.

1. RECEIVER DEPOSITARY FINANCIAL INSTITUTION (DFI) No. The Treasury Department's American Bankers Association (ABA) number for deposit messages is 021030004. This number shall be entered by the sending bank for all deposit messages sent to Treasury for credit to the Defense Cooperation Account.
2. TYPE-SUBTYPE CODE. The type and subtype code is provided by the sending bank.
3. SENDER DFI NO. This number is provided by the sending bank.

4. SENDER REFERENCE No. The sixteen (16) character reference number is inserted by the sending bank at its option.
5. AMOUNT. The transfer amount shall be in U.S. dollars and must be punctuated with commas and a decimal point; use of the dollar sign is optional.
6. SENDER DFI NAME. This information is automatically inserted by the Federal Reserve Bank.
7. RECEIVER DFI NAME. The Treasury Department's name for deposit messages is "TREAS NYC." The name should be entered by the sending bank.
8. PRODUCT CODE. A product code of "CTR" for customer transfer should be the first data in the RECEIVER - TEXT field. Other values may be entered, if appropriate, using the ABA's options. A slash must be entered after the product code.
9. AGENCY LOCATION CODE (ALC). The agency location code is of critical importance and must appear in the precise manner stated to allow for automated processing and classification to the ALC of the Department of Defense. The sequence includes the beneficiary code tag (BNF) and indicator code (/AC) followed by the Defense Department's eight (8) digit ALC (97200010) for this account. The ALC identification sequence can, if necessary, begin on one line and end on the next line. However, the field beneficiary code tag (BNF) must be one line and cannot contain any spaces.
10. THIRD PARTY INFORMATION. The reason for the funds transfer should appear in this field. The originator-to-beneficiary information field tag (OBI=) is used to signify the beginning of free-form text. An example follows: BNF=/AC-97200010 OBI=to the Defense Cooperation Account(97X5187) for defense programs, projects, and activities from (Name of Donor).

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CHAPTER 4

CREDIT MANAGEMENT0401 OVERVIEW

040101. Purpose. This chapter establishes the policy and procedures for credit management within the Department of Defense. The policies and procedures for credit programs reflect the requirements of the Federal Credit Reform Act of 1990. The Federal Credit Reform Act of 1990 is found at Title V of the Congressional Budget Act of 1974, as amended by section 13201 of the Omnibus Budget Reconciliation Act of 1990. The major purposes of the Act are to:

- measure more accurately the costs of credit programs;
- place the cost of credit programs on a budgetary basis equivalent to other Federal spending;
- encourage the delivery of benefits in the form most appropriate to the needs of beneficiaries; and
- improve the allocation of resources among credit programs and between credit and other spending programs.

040102. General. The policies set forth in this chapter apply to direct loan obligations and loan guarantee programs. The chapter provides implementing guidance for "Credit Apportionment and Budget Execution," found within the Office of Management and Budget (OMB) Circular No. A-34. It also implements "Accounting for Direct Loans and Loan Guarantees," Statement of Federal Financial Accounting Standards Number 2.

0402 STANDARDS

040201. Explanation. The specific accounting standards for each category type of loans, are discussed in the subsequent sections of this Volume. These standards concern the recognition and measurement of direct loans, the liability associated with loan guarantees, and the cost of direct loans and loan guarantees. (Figure 4-1 and 4-2 provides examples the credit reform cash flows for direct and guaranteed loans) The standards apply to direct loans and loan guarantees on a group basis, such as a cohort or a risk category, Section 0410 Credit Reform Accounts and Definitions, provides definitions for these categories. Present value accounting does not apply to direct loans or loan guarantees on an individual basis, except for a direct loan or loan guarantee that constitutes a cohort or a risk category.

040202. Accounting Standards

A. Post-1991 Direct Loans. Refers to direct loan obligations or made after the beginning of the fiscal year 1992, i.e., after October 1, 1991, and the resulting direct loans. Direct loans disbursed and outstanding are recognized as assets at the present value of their estimated net cash inflows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance.

B. Post-1991 Guarantees. Refers to loan guarantee commitments made after the beginning of the fiscal year 1992, i.e., after October 1, 1991, and the resulting loan guarantees. For guaranteed loans outstanding, the present value of estimated net cash outflows of the loan guarantees is recognized as a liability. Disclosure is made of the face value of guaranteed loans outstanding and the amount guaranteed.

C. Subsidy Costs of Post-1991 Direct Loans and Loan Guarantees. For direct or guaranteed loans disbursed during a fiscal year, a subsidy expense is recognized. The amount of the subsidy expense equals the present value of estimated cash outflows over the life of the loans minus the present value of estimated cash inflows, discounted at the interest rate of marketable Treasury securities with a similar maturity term, applicable to the period during which the loans are disbursed (hereinafter referred to as the applicable Treasury interest rate).

1. For the fiscal year during which new direct or guaranteed loans are disbursed, the components of the subsidy expense of those new direct loans and loan guarantees are recognized separately among interest subsidy costs, default costs, fees and other collections, and other subsidy costs.

2. The interest subsidy cost of direct loans is the excess of the amount of the loans disbursed over the present value of the interest and principal payments required by the loan contracts discounted at the applicable Treasury rate. The interest subsidy cost of loan guarantees is the present value of estimated interest supplement payments.

3. The default cost of direct loans or loan guarantees results from any anticipated deviation, other than prepayments by the borrowers, from the payments schedule in the loan contracts. The deviations include delinquencies and omissions in interest and principal payments. The default cost is measured at the present value of the projected payment delinquencies and omissions minus net recoveries. Projected net recoveries include the amounts that would be collected from the borrowers at a later date, or the proceeds from the sale of acquired assets, minus the costs of foreclosing, managing, and selling those assets.

4. The present value of fees and other collections is recognized as a deduction from subsidy costs.

5. Other subsidy costs consist of cash flows that are not included in calculating the interest or default subsidy costs, or in fees and other collections. They include the effect of prepayments within contract terms.

D. Subsidy Amortization and Reestimation. The subsidy cost allowance for direct loans is amortized by the interest method using the interest rate that was originally used to calculate the present value of the direct loans when the direct loans were disbursed. The amortized amount is recognized as an increase (effective interest exceeds nominal interest) or decrease (nominal interest exceeds effective interest) in interest income. Nominal interest equals the nominal (face amount) of the loan times the stated interest rate. Effective interest equals the book value of the loan times the applicable Treasury interest rate.

1. Interest is accrued and compounded on the liability of loan guarantees at the interest rate that was originally used to calculate the present value of the loan guarantee liabilities when the guaranteed loans were disbursed. The accrued interest is recognized as interest expense.

2. The subsidy cost allowance for direct loans and the liability for loan guarantees are reestimated at the beginning of the fiscal year after the year of disbursements. Since the allowance or the liability represents the present value of the net cash outflows of the underlying direct loans or loan guarantees, the reestimation takes into account all factors that may have affected the estimate of each component of the cash flows, including prepayments, defaults, delinquencies, and recoveries. Any increase or decrease in the subsidy cost allowance or the loan guarantee liability resulting from the reestimates is recognized as a subsidy expense (or a reduction in subsidy expense). Reporting the subsidy cost allowance of direct loans (or the liability of loan guarantees) and reestimates by component is not required.

E. Criteria for Default Cost Estimates. The criteria for default cost estimates provided in this and the following paragraphs apply to both initial estimates and subsequent reestimates. Default costs are estimated and reestimated for each program on the basis of separate cohorts and risk categories. The reestimates take into account the differences in past cash flows between the projected and realized amounts and changes in other factors that can be used to predict the future cash flows of each risk category.

1. In estimating default costs, the following risk factors are considered: (1) loan performance experience; (2) current and forecasted international, national, or regional economic conditions that may affect the performance of the loans; (3) financial and other relevant characteristics of borrowers; (4) the value of collateral to loan balance; (5) changes in recoverable value of collateral; and (6) newly developed events that would affect the loan's performance. Improvements in methods to reestimate defaults are also considered.

2. Each credit program should use a systematic methodology, such as an econometric model, to project default costs of each risk category. If individual accounts with

significant amounts carry a high weight in risk exposure, an analysis of the individual accounts is warranted in making the default cost estimate for that category.

3. Actual historical experience of the performance of a risk category is a primary factor upon which an estimation of default cost is based. To document actual experience, a data base should be maintained to provide historical information on actual payments, prepayments, late payments, defaults, recoveries, and amounts written off.

F. Revenues and Expenses. Interest accrued on direct loans, including amortized interest, is recognized as interest income. Interest accrued on the liability of loan guarantees is recognized as interest expense. Interest due from the Treasury Department on uninvested funds is recognized as interest income. Interest accrued on debt to the Treasury Department is recognized as interest expense.

1. Costs for administering credit activities, such as salaries, legal fees, and office costs, that are incurred for credit policy evaluation, loan and loan guarantee origination, closing, servicing, monitoring, maintaining accounting and computer systems, and other credit administrative purposes, are recognized as administrative expense. Administrative expenses are not included in calculating the subsidy costs of direct loans and loan guarantees.

G. Pre-1992 Direct Loans and Loan Guarantees. The losses and liabilities of direct loans obligated and loan guarantees committed before October 1, 1991, are recognized when it is more likely than not that the direct loans will not be collected totally or that the loan guarantees will require a future cash outflow to pay default claims.

1. The allowance of the uncollectible amounts and the liability of loan guarantees should be reestimated each year as of the date of the financial statements. In estimating losses and liabilities, the risk factors discussed in the previous section should be considered. Disclosure is made of the face value of guaranteed loans outstanding and the amount guaranteed.

2. Restatement of pre-1992 direct loans and loan guarantees on a present value basis is permitted but not required.

H. Modification of Direct Loans and Loan Guarantees. The term modification means a Federal Government action, including new legislation or administrative action, that directly or indirectly alters the estimated subsidy cost and the present value of outstanding direct loans, or the liability of loan guarantees.

1. Direct modifications are actions that change the subsidy cost by altering the terms of existing contracts or by selling loan assets. Existing contracts may be altered through such means as forbearance, forgiveness, reductions in interest rates, extensions of maturity, and prepayments without penalty. Such actions are modifications unless they are

considered reestimates, or workouts as defined below, or are permitted under the terms of existing contracts.

2. Indirect modifications are actions that change the subsidy cost by legislation that alters the way in which an outstanding portfolio of direct loans or loan guarantees is administered. Examples include a new method of debt collection prescribed by law or a statutory restriction on debt collection.

3. The term modification does not include subsidy cost reestimates, the routine administrative workouts of troubled loans, and actions that are permitted within the existing contract terms. Workouts are actions taken to maximize repayments of existing direct loans or minimize claims under existing loan guarantees. The expected effects of work-outs on cash flows are included in the original estimate of subsidy costs and subsequent reestimates.

I. Modification of Direct Loans. With respect to a direct or indirect modification of pre-1992 or post-1991 direct loans, the cost of modification is the excess of the pre-modification value of the loans over their post modification value. The amount of the modification cost is recognized as a modification expense when the loans are modified.

1. When a post-1991 direct loan is modified, its existing book value is changed to an amount equal to the present value of the loan's net cash inflows projected under the modified terms from the time of modification to the loan's maturity. It is discounted at the original discount rate (the rate that is originally used to calculate the present value of the direct loans, when the direct loans were disbursed).

2. When a pre-1992 direct loan is directly modified, it is transferred to a financing account and its book value is changed to an amount equal to its post-modification value. Any subsequent modification is treated as a modification of post-1991 loans. When a pre-1992 direct loan is indirectly modified, it is kept in a liquidating account. Its bad debt allowance is reassessed and adjusted to reflect amounts that would not be collected due to the modification.

3. The changes in the book value of both pre-1992 and post-1991 direct loans, resulting from a direct or indirect modifications, normally have cost differences attributable to the use of different discount rates or different measurement methods. Reference Office of Management and Budget Circular A-34 dated December, 1995. Any difference between the change in book value and the cost of modification is recognized as a gain or loss. For post-1991 direct loans, the modification adjustment transfer paid or received to offset the gain or loss is recognized as a financing source (or a reduction in financing source).

J. Modification of Loan Guarantees. With respect to a direct or indirect modification of pre-1992 or post-1991 loan guarantees, the cost of modification is the excess of the post-modification liability of the loan guarantees over their pre-modification liability. The modification cost is recognized as modification expense when the loan guarantees are modified.

1. The existing book value of the liability of modified post-1991 loan guarantees is changed to an amount equal to the present value of net cash outflows projected under the modified terms from the time of modification to the loans' maturity. It is discounted at the original discount rate (the rate that is originally used to calculate the present value of the liability when the guaranteed loans were disbursed).

2. When a pre-1992 loan guarantee is directly modified, it is transferred to a financing account and the existing book value of the liability of the modified loan guarantees is changed to an amount equal to its post-modification liability. Any subsequent modification is treated as a modification of post-1991 loan guarantees. When a pre-1992 loan guarantee is indirectly modified, it is kept in a liquidating account. The liability of such loan guarantees is reassessed and adjusted to reflect any change in the liability resulting from the modification.

3. The change in the amount of liability of both pre-1992 and post-1991 loan guarantees resulting from a direct or indirect modification and the cost of modification will normally differ, due to the use of different discount rates or the use of different measurement methods. Any difference between the change in liability and the cost of modification is recognized as a gain or loss. For post-1991 loan guarantees, the modification adjustment transfer paid or received to offset the gain or loss is recognized as a financing source (or a reduction in financing source).

K. Disclosure. Disclosure is made in notes to financial statements to explain the nature of the modification of direct loans or loan guarantees, the discount rate used in calculating the modification expense, and the basis for recognizing a gain or loss related to the modification.

L. Foreclosure of Post-1991 Direct Loans and Guaranteed Loans. When property is transferred from borrowers to a federal credit program, through foreclosure or other means, in partial or full settlement of post-1991 direct loans or as a compensation for losses that the government sustained under post-1991 loan guarantees, the foreclosed property is recognized as an asset. The asset is recorded at the present value of its estimated future net cash inflows discounted at the original discount rate.

1. If a legitimate claim exists by a third party or by the borrower to a part of the recognized value of the foreclosed assets, the present value of the estimated claim is recognized as a special contra valuation allowance.

2. Upon the foreclosure of a guaranteed loan, a federal guarantor may acquire the loan involved. The acquired loan is recognized at the present value of its estimated net cash inflows from selling the loan or from collecting payments from the borrower, discounted at the original discount rate.

3. When assets are acquired in full or partial settlement of post-1991 direct loans or guaranteed loans, the present value of the government's claim against the borrowers is reduced by the amount settled as a result of the foreclosure.

M. Write-off of Direct Loans. When post-1991 direct loans are Written off, the unpaid principal of the loans is removed from the gross amount of loans receivable. Concurrently, the same amount is charged to the allowance for subsidy costs. Prior to the write-off, the uncollectible amounts should have been fully provided for in the subsidy cost allowance through the subsidy cost estimate or reestimates. Therefore, the write-off would have no effect on expenses.

0403 CREDIT REFORM FUND CONTROLS

040301. Fund Control. For credit programs, systems for administrative control of funds are required to:

A. Restrict both obligations and expenditures from each program account, financing account, and liquidating account to the lesser of:

1. The amounts available for administrative expenses, direct loan subsidies, direct loan levels, guaranteed loan levels, and any limitations specified in law; or

2. The amounts apportioned for the amounts specified above.

B. Enable the fixing of responsibility for an obligation or expenditure exceeding the categories specified above.

C. Simultaneously determine, at the obligation stage for direct loans and at the commitment stage for guaranteed loans, whether sufficient budget authority for the subsidy exists in the program account and whether a sufficient unused loan level limit exists in the financing account. The system for calculating obligations also must be capable of changing the subsidy calculation when the Treasury interest rate changes. (Rate changes do not affect obligated but undisbursed loans in the case of direct loans and committed but undisbursed loans in the case of guaranteed loans.)

040302. Antideficiency Act Violations. For direct loan, guaranteed loan, and financing accounts, Antideficiency Act violations, reportable to the President, through the Director of OMB, and to the Congress, include the following:

A. Overobligation or Overexpenditure of the Subsidy. This is any case where an officer or employee of the United States makes or authorizes an expenditure or creates or authorizes an obligation, including a commitment, that is in excess of (1) the direct loan subsidy or (2) the guaranteed loan subsidy.

Violations include modifications of direct loans or loan guarantees, such as forgiveness, forbearance, reductions in interest rate, prepayments without penalty, and extensions of maturity, that result in obligations in excess of apportioned unobligated balances or subsidy amounts.

B. Overobligation or Overexpenditure of the Credit Level Supportable by the Enacted Subsidy. This is any case where an officer or employee of the United States makes or authorizes an expenditure or creates or authorizes an obligation, including a commitment, that is in excess of the credit program level supportable by the enacted subsidy, regardless of whether the subsidy is positive or negative. This includes obligations or expenditures that are in excess of (1) the direct loan level, (2) the guaranteed loan level or (3) any limitations on the loan level or the Federal share of guaranteed loan levels.

C. Overobligation or Overexpenditure of the Amount Appropriated for Administrative Expenses. This is any case where an officer or employee of the United States makes or authorizes an expenditure or creates or authorizes an obligation, including a commitment, that is in excess of the amount appropriated for administrative expenses.

D. Obligation or Expenditure of the Lapsed Unobligated Balance of the Subsidy, Except to Correct Mathematical or Data Input Errors in Calculating Subsidy Amounts. This is any case where an officer or employee of the United States makes or authorizes an expenditure or creates or authorizes an obligation, including a commitment, against unobligated subsidy balances after the period of obligational authority has expired. Correction of mathematical or data input errors up to the amount of the lapsed unobligated balance of the subsidy are specifically exempted. Corrections of these errors in excess of the amount of the lapsed unobligated balance of the subsidy are violations.

0404 CREDIT APPORTIONMENT AND REAPPORTIONMENT

040401. Basis for Apportionment. Unless specifically exempted by the OMB, all program, financing, and liquidating accounts will be apportioned. The apportionment document signed by the responsible OMB officials and all attachments transmitted to the agency are a part of the apportionment, unless otherwise specified on the apportionment document.

040402. Timing of Requests. Initial apportionment requests for direct loans and guaranteed loans will be submitted to the OMB within 10 calendar days after the enactment of the appropriations act.

A. Requests for reapportionment will be submitted to the OMB as soon as a change in the previous apportionment becomes necessary due to changes in amounts provide current data on each available, program requirements, or other factors.

B. Reapportionment requests made specifically for reestimates due to a change in the Treasury rate (yield) between the time of obligation and the time of disbursement will be submitted to the OMB in the year following disbursement.

C. Reapportionment requests will be required for subsidy reestimates and modifications.

040403. Types of Apportionment. Credit accounts will be apportioned in the same manner as non-credit accounts. This means that the credit accounts may be apportioned by time periods or by categories, or by a combination of time periods and categories, as determined by the OMB.

040404. Reporting Format and Procedures. Unless otherwise specified by the OMB, an original and one copy of an apportionment form will be submitted to the OMB. The original will be signed by an officer duly authorized by the head of the agency.

A. Figure 4-3 provides an illustration of Standard Form 132. This form will be used for program accounts that contain credit administrative expenses for both direct loans and guaranteed loans:

0405 REPORTS ON BUDGET EXECUTION (SF133)

040501. Coverage. Unless otherwise specified by the OMB, reports on budget execution will be prepared by all agencies to provide current data on each credit account, whether or not apportioned. Expired accounts will be included on the same form as the unexpired account (or accounts) of the same title.

040502. Timing of Reports. Reports on credit execution will be submitted electronically through the Department of Treasury GOALS system, each quarter beginning with the second quarter of FY 1994, or such other time period specified by the OMB.

040503. Supporting Data. The execution reports will be accompanied by data supporting the various lines, including data on risk categories or financing tranches, whenever such data are required by OMB.

040504. Reporting Format and Procedures. For all liquidating accounts, continue to use Standard Form 133 (Figure 4-4).

040505. Number of Copies and Signature. An original and one copy of the appropriate version of the SF 133 or an approved substitute will be submitted directly to the OMB program division that has primary responsibility for reviewing the agency's budget. The original will be signed by an officer duly authorized by the head of the agency. Responsible agencies will also submit a copy of the reports to addresses that receive the Report on Budget Execution (Acct Rpt (M) 1176).

040506. Refunds. Refunds of obligations that were incurred erroneously in the current fiscal year will be netted against line 8, Obligations Incurred. Refunds of obligations incurred in prior fiscal years will be placed on line 4, Recoveries of Prior Year Obligations. These must be reapportioned before they can be used.

0406 DIRECT LOANS

040601. Direct Loan Apportionment and Reapportionment Schedule (SF132). This schedule (Figure 4-3) simultaneously apportions the direct loan program account and financing account.

040602. Recording Obligations, Disbursing Loans, and Reestimating Subsidies. Note that the subsidy is not recalculated at the time of loan disbursement. Rather, any change in estimated subsidy caused by an interest rate change is made at the beginning of the fiscal year after the fiscal year in which the loan is disbursed. If, at that time, the subsidy amount increases, a reapportionment request is needed to fund the increase. The permanent indefinite appropriation will be used to fund the increase. If the subsidy amount decreases, a payment will be made to a special fund receipt account.

040603. Reports on Execution--Direct Loans. Reports on Execution for direct loans will be reported on the SF133.

0407 GUARANTEED LOANS

040701. Guaranteed Loan Apportionment and Reapportionment Schedule (SF 133). This schedule (Figure 4-4) simultaneously apportions the guaranteed loan program account and financing account.

040702. Reports on Budget Execution--Guaranteed Loans. For the program account and for the financing account the Credit Execution reporting for guaranteed loans will be reported on the SF 133.

0408 COMPUTATION OF INTEREST EXPENSE AND INTEREST INCOME

040801. Procedures for Computing Interest Expense and Interest Income for Credit Financing Accounts. A simplified set of procedures has been developed to compute interest for direct loan and guaranteed loan financing accounts under credit reform. The procedures describe computations for: (1) interest expenses on borrowing from Treasury by financing accounts and (2) interest income on uninvested funds in financing accounts. The detailed computational processes have been divided into one set of modules for direct loans and a separate set of modules for guaranteed loans.

A. These computations may be used in lieu of the tranche accounting requirements prescribed by the OMB. If these procedures are used, the credit data base need only provide subdivisions for cohort and risk category. The modules have been designed to simplify these computations and enhance user understanding of the objectives of each major computation. These modules may be physically designed in any suitable configuration, as long as the principles which underlie the interest computations are not compromised.

B. In many instances, categories of disbursements and collections shown as line items in the modules are not critical to the computations as separate items or may not be applicable to all programs. Separate categories have been included to clarify the content of a collections or disbursements total. Consequently, the modules may be redesigned to summarize these categories, if the summary does not compromise the principles which underlie the computational requirements.

C. As a minimum, these new procedures must be applied to fiscal year 1994 transactions and year end balances for all credit reform cohorts. DoD Components may request Treasury Department approval to retroactively adjust FY 1992 and 1993 interest expense and income using these procedures.

D. The frequency of interest computations has been changed to require only annual computations of interest expense and income related to Treasury Department transactions.

040802. Instructions for Computations of Interest Expense and Interest Income for Direct and Guaranteed Loan Programs.

A. **Background.** Interest expense in a direct loan program results from borrowing from the Treasury Department. As each loan is disbursed by the financing account to the individual borrower, subsidy funds are transferred from the program account to the financing account. Consequently, each loan disbursement is financed by two sources--subsidy transfer and borrowing from the Treasury Department.

B. A single borrowing from the Treasury Department is made at the beginning of each fiscal year, separately for each cohort on the basis of the estimated net loan disbursements for the cohort. Interest expense accrues on the borrowing, and interest income accrues on the undisbursed balance of the Treasury Department borrowing. (The undisbursed balance of Treasury Department borrowing is held as uninvested funds and earns interest.) The interest rate earned on the uninvested funds equals the interest rate paid on borrowing from the Treasury Department.

040803. Frequency of Interest Computations. The OMB has determined that most credit programs do not have a seasonal bias in their loan disbursement patterns. Consequently, interest expense and income calculations for cohorts which are currently disbursing will be based on an assumption that the actual loan amounts disbursed during the year were disbursed equally throughout the four quarters. The assumption allows agencies to compute interest expenses and

interest income annually, at the end of each fiscal year, using the average annual interest rate provided by the OMB and the Treasury Department. Quarterly or monthly computations are no longer required. In those few programs that have a strong seasonal pattern, the OMB will calculate special weighted average interest rates appropriate to these patterns and will provide them to the agencies.

040804. Weighted Average Interest Rate. The Credit Reform Act provides that the interest rate for borrowing will be assigned on the basis of the Treasury rate in effect during the period of loan disbursement. Many individual loans are disbursed in segments over several quarters or even years. Consequently, several interest rates can be applicable to an individual loan. To simplify the recordkeeping, a single weighted average interest rate is maintained for each cohort and is adjusted each year, until all the disbursements from the cohort have been made. Each year the current year average annual interest rate is weighted by current year disbursements and merged with the prior year's weighted average to calculate a new weighted average. Details of these computations are provided in the examples following.

040805. Procedure for Computing Interest Expenses and Income Related to Borrowing for Direct Loan Programs. The interest income and expenses for a direct loan financing account are computed in a series of modules. The modules which follow have been logically divided to compute interest income and expense for identical bases, such as undisbursed borrowing. Disbursement or non-disbursement of amounts borrowed does not affect interest expense since all borrowing is dated October 1. However, disbursement status does affect the amount of borrowed cash retained in the financing account and consequently the computation of interest income. Components of interest income and expense are calculated separately in each module and then added in module 6. The modules are subdivided on the basis of the following characteristics:

- A. Interest expense for borrowing disbursed throughout the current year is partially offset by interest income on the delayed disbursement of cash borrowed (module 1).
- B. Interest expense for undisbursed borrowing is wholly offset by interest income on the undisbursed cash borrowed (module 2).
- C. Interest expense for borrowing disbursed in prior years is not offset by any interest income (module 3).
- D. Collections during the year accrue interest income as they are deposited into the financing account (module 5).

040806. Procedures for Guaranteed Loans. The basic purpose of a financing account for guaranteed loans is to accumulate funds to finance future defaults. Consequently, the

modules for guaranteed loans emphasize cash collections (mostly subsidy and fees) and the related interest income on accumulated balances. Unlike the direct loan programs, subsidy transfers for guarantees are retained in the financing account for lengthy periods and earn interest income.

A. The methods of calculating the weighted average interest rate and interest income are not as exact as the methods for direct loans. The interest rate for cash accumulations related to each loan guarantee is determined by the date that the commercial lender (not the Federal agency) disburses the loan being guaranteed. Since this process can cause a variety of interest rates in each cohort, averages are used similar to direct loans.

B. Program agencies must rely on lender reporting for this information. Consequently, the interest income settlements with the Treasury Department, at the end of the fiscal year, will include an estimate of fourth quarter lender disbursements and collections because of delayed reporting. The estimate will be adjusted as actual lender data is accumulated.

C. While guaranteed loan financing cohorts are oriented toward cash accumulation, it is possible (although rare) for temporary net borrowing from the Treasury Department to become necessary. Under these circumstances, the guaranteed loan modules still should be used, but negative signs in modules 3 and 4 would indicate borrowing in lieu of cash balance and interest expense in lieu of interest income.

DIRECT LOAN PROGRAM INTEREST COMPUTATION MODULE 1

Determine interest expense on disbursed borrowing for the current year and interest income earned, on the amount borrowed, prior to disbursement of the borrowing.

EXAMPLE

1. Total loans disbursed in current year	1,050,000
2. Subsidy payments received during current year for new direct loan disbursements	50,000
3. Net loan disbursements for current year	1,000,000
4. Working capital disbursements for current year	10,000
5. Borrowing from Treasury related to reestimates and modifications - current year	-0-
6. Total borrowing from Treasury for disbursements made during current year	1,010,000
7. Average annual interest rate, current year	.0700
8. Time factor for income	.5
9. Interest income - current year uninvested funds	35,350
10. Interest expense - current year disbursed borrowing	70,700

INSTRUCTIONS

ITEM 1: Total loans disbursed during current fiscal year from the cohort.

ITEM 2: Enter the total subsidy payments for new direct loan disbursements that were or should have been paid by the program account to the financing account for the cohort during the current fiscal year. (Payments related to reestimates and modifications are recorded in item 5.)

ITEM 3: Net loan disbursements, difference between item 1 and item 2.

ITEM 4: Any disbursements from the cohort during the current fiscal year for working capital disbursements.

ITEM 5: Enter the sum of gross payments made by the financing account during the current fiscal year, to: (1) the special fund receipt account, (2) the liquidating account, or (3) the general fund. These payments are related to downward subsidy cost reestimates or to modifications. (Note that gross collections are recorded in module 5.) This sum includes negative subsidy cost payments, modification adjustment transfers, and payments to acquire loans from the liquidating account or to compensate the liquidating account for losses.

ITEM 6: The sum of item 3 plus item 4 plus item 5.

ITEM 7: Average annual rate, current year.

ITEM 8: Time factor. Use .5 as a constant. This factor assumes that disbursements were made in an equal amount throughout the year.

ITEM 9: Interest income. (Item 6 x item 7 x item 8.)

ITEM 10: Interest expense for disbursed funds. Item 6 times item 7. Since funds were borrowed on October 1, the assumed time period is one year.

**DIRECT LOAN PROGRAM INTEREST COMPUTATIONS
MODULE 2**

Determine interest income and interest expense on unused borrowing.

EXAMPLE

1. Undisbursed borrowing balance, end of prior year	90,000
2. Borrowing during current year (retroactive to Oct. 1)	1,120,000
3. Total adjusted gross borrowing balance, current year	1,210,000
4. Net loan disbursements, current year (module 1)	1,000,000
5. Non-loan disbursements, current year (module 1)	10,000
6. Preliminary undisbursed borrowing balances, end of year	200,000
7. Average annual interest rate, current year	.0700
8. Interest income-unused borrowing balance	14,000
9. Interest expense-unused borrowing balance	14,000

INSTRUCTIONS

ITEM 1: Final undisbursed borrowing balance from Treasury, at end of prior fiscal year for the cohort. See module 7, item 9 from prior year.

ITEM 2: New borrowing during current fiscal year for the cohort. All borrowing during the year is dated retroactively to October 1.

ITEM 3: Sum of items 1 plus 2.

ITEM 4: Net loan disbursements, current year from module 1, item 3.

ITEM 5: Non-loan disbursements, current year (item 4 plus item 5 from module 1).

ITEM 6: Item 3 less item 4 less item 5. This balance is preliminary, as explained in module 7.

ITEM 7: Average annual interest rate, current year.

ITEM 8: Interest income from unused borrowing. Item 6 x item 7 (x 1 year).

ITEM 9: Interest expense from unused borrowing. Item 6 x item 7 (x 1 year).

**DIRECT LOAN PROGRAM INTEREST COMPUTATIONS
MODULE 3**

Determine interest expense on prior year borrowing that was disbursed in prior years.

EXAMPLE

1. Debt with Treasury, end of prior year	990,000
2. Undisbursed debt, end of prior year (module 2)	90,000
3. Adjusted debt, prior year disbursements	900,000
4. Weighted average interest rate, end of prior year (module 4)	.0500
5. Annual interest expense, prior year debt	45,000

INSTRUCTIONS

ITEM 1: Debt with Treasury at the end of the prior fiscal year (see module 8).

ITEM 2: Portion of debt at the end of the prior year that did not finance disbursements, nor was repaid to Treasury.

ITEM 3: Item 1 minus item 2.

ITEM 4: Weighted average interest rate as of the end of the prior year as computed in prior year's module 4.

ITEM 5: Annual interest expense for prior year borrowing, item 3 x item 4 (x 1 year).

**DIRECT LOAN PROGRAM
MODULE 4**

Compute new weighted average interest rate as of the end of the current year.

EXAMPLE

	Cumulative to End of Prior Year	Current Year	Total
1. Net loan disbursements	11,000,000	1,000,000	12,000,000
2. Interest rate	.0500	.0700	N/A
3. Annual Interest amount	550,000	70,000	620,000
4. Revised weighted average interest rate, end of current year			.0517

INSTRUCTIONS

ITEM 1: Enter in column 1 the cumulative net loan disbursements from the inception of the cohort to the end of the prior fiscal year. Enter net loan disbursements for the current fiscal year per module 1 in column 2, and the total in column 3.

ITEM 2: Enter in column 1 the weighted average interest rate from module 4 of prior year. Enter In column 2 the average annual Interest rate for the current year.

ITEM 3: Product of item 1 x item 2 to obtain a nominal annual interest. Add products in first two columns and post result to third column (total).

ITEM 4: New weighted average rate. In total column, item 3 divided by item 1, computed to four decimal places.

**DIRECT LOAN PROGRAM
MODULE 5**

Determine current year collections (unrelated to new borrowing) and compute the related interest income.

EXAMPLE

1. Collections of loan principal--current year	100,000
2. Collections of interest from borrowers--current year	187,500
3. Collections of fees--current year	10,000
4. Other collections from the public--current year	2,500
5. Collections from budgetary accounts for reestimates and modifications--current year	-0-
6. Total collections--current year	300,000
7. Weighted average interest rate, end of current year	.0517
8. Time factor	05
9. Interest Income--current year collections	7,755

INSTRUCTIONS

ITEM 1: Collections of loan principal--current year. Summary of collections deposited during the year which derive from principal repayments by borrowers.

ITEM 2: Collections of Interest from borrowers--current year. Summary of collections deposited during the year which derive from Interest payments by borrowers.

ITEM 3: Collection of fees--current year. Summary of collections deposited during the year which derive from fees paid by the borrower at any time during the loan process.

ITEM 4: Other collections from public--current year. Summary of collections deposited during the year from the public other than items 1 through 3. Do not include subsidies in these collections.

ITEM 5: Enter the sum of gross collections received by the financing account, during the current fiscal year (unrelated to new borrowing), from: (1) the program account, (2) the liquidating account or (3) the general fund. These collections are related to upward subsidy cost reestimates or modifications. They include subsidy cost, modification adjustment transfers, and collections from the liquidating account to offset cost savings. (Gross payments are recorded in Module 1).

ITEM 6: Total collections. Sum of items 1 through 5.

ITEM 7: Revised weighted average interest rate--end of current year (see module 4).

ITEM 8: Use .5, which assumes equal collection throughout the year.

ITEM 9: Interest Income--current year collections. Product of Item 6 x item 7 x item 8.

**DIRECT LOAN PROGRAM INTEREST COMPUTATIONS
MODULE 6**

Determine total interest Income due from Treasury and Interest expenses payable to Treasury.

EXAMPLE**Interest Income Summary**

1. Interest income module 1	35,350
2. Interest income module 2	14,000
3. Interest income module 5	<u>7,755</u>
Total interest income from Treasury	57,105

Interest Expense Summary

1. Interest expense module 1	70,700
2. Interest expense module 2	14,000
3. Interest expense module 3	<u>45,000</u>
Total interest expense to Treasury	129,700

INSTRUCTIONS

Obtain income and expense items from each module and sum the results.

**DIRECT LOAN PROGRAM INTEREST COMPUTATION
MODULE 7**

Determine amount of annual principal repayment to Treasury.

EXAMPLE

1. Total collections current year (module 5)	300,000
2. Interest income from Treasury (module 6)	57,105
3. Total collections available for transfer	357,105
4. Transfers to working capital funds, current year	10,000
5. Interest expense to Treasury (module 6)	9,700
6. New borrowing for Interest shortfall	-0-
7. Net funds available for principal repayment	217,405
8. Preliminary undisbursed borrowing balance at end of current year	200,000
9. Final undisbursed borrowing balance (amounts to be carried forward for future year disbursements)	100,000
10. Annual principal repayment to Treasury	317,405

INSTRUCTIONS

ITEMS 1, 2, AND 5: Obtain amounts from other modules as indicated.

ITEM 3: Sum of items 1 and 2.

ITEM 4: Total transfers to working capital funds during current year.

ITEM 6: If items 4 plus 5 are less in absolute value than item 3, enter a zero. If items 4 plus 5 are greater in absolute value than item 3, enter the exact amount of the difference as a positive number. Scheduled interest must be paid to the Treasury Department even if from new borrowing.

ITEM 7: Item 3 plus item 6 minus items 4 and 5.

ITEM 8: Enter any borrowing which remains undisbursed as of the end of the current year (from module 2).

ITEM 9: Enter any amounts which agency decides should be carried forward to the next fiscal year for future loan disbursements. This amount will be used in the next year's module 2, item 1. In the example, the agency decided to retain half of the preliminary balance.

ITEM 10: Item 7 plus item 8 minus item 9. This amount will be transferred on an SF-1151.

**DIRECT LOAN PROGRAM INTEREST COMPUTATIONS
MODULE 8**

Determine debt to Treasury at end of current fiscal year.

EXAMPLE

1. Debt to Treasury, end of prior year (module 8--prior year)	990,000
2. New borrowing for interest shortfall (module 7)	-0-
3. Borrowing during current year (module 2)	1,120,000
4. Annual principal repayment to Treasury (module 7)	317,405
5. Debt to Treasury end of year	1,792,595

INSTRUCTIONS

ITEMS 1-4: Enter amounts from other modules as indicated.

ITEM 5: Sum of Items 1+2+3 minus item 4.

**GUARANTEED LOAN PROGRAM INTEREST INCOME AND EXPENSE
COMPUTATIONS
MODULE 1**

Compute revised weighted average interest rate as of end of current year.

EXAMPLE

	Cumulative to End of Prior Year	Current Year	Total
1. Lender disbursements	900,000	100,000	1,000,000
2. Interest rate	.06	.07	--
3. Annual Interest amount	54,000	7,000	61,000
4. Revised weighted average interest rate		.0610	

INSTRUCTIONS

ITEM 1: Enter cumulative lender disbursements from the inception of the cohort to the end of the current year in column 1; lender disbursements during the current year in column 2; and their total in column 3.

ITEM 2: Enter the weighted average Interest rate as of the end of the previous year In column 1 (from module 1 of previous year) and enter the current year average annual interest rate in column 2.

ITEM 3: Multiply items 1 x 2 in the first two columns to compute nominal annual Interest. Add these amounts and post results to column 3.

ITEM 4: Divide item 3 (total column) by item 1 (total column) to compute revised weighted average interest rate. Show to four decimal places.

GUARANTEED LOAN PROGRAM INTEREST INCOME AND EXPENSE COMPUTATIONS MODULE 2

Compute Interest Income on current year transactions.

EXAMPLE

1. Net transfers from budgetary accounts to financing account during current year	4,000
2. Other deposits to financing account during current year	1,000
3. Total deposits during current year	5,000
4. Disbursements from financing account to the public during current year	2,000
5. Working capital disbursements during current year	0
6. Net collections during current year, or	3,000
7. Net disbursements during current year	0
8. Current year average Interest rate	.07
9. Time factor	.5
10. Interest income for current year transactions, or	105
11. Reduction in interest income for current year transactions	0

INSTRUCTIONS

ITEM 1: Enter the total net amount that was or should have been paid by budgetary accounts to the financing account for the cohort during the current fiscal year (except interest and debt transactions). This should include initial subsidy payments, reestimates, modifications, modification adjustment transfers and transactions with the liquidating account to acquire loan guarantees or to offset losses or savings. The total is the amount collected, net of payments by the financing account to budgetary accounts. It should include transactions with the program account, the special fund receipt account, the liquidating account and the general fund.

ITEM 2: Enter other deposits to the financing account during the current year from fees, etc., but exclusive of interest income earned on uninvested funds.

ITEM 3: Sum of items 1 and 2.

ITEM 4: Enter total disbursements from the financing account during the current year, to the public for default payments, interest supplements, etc.

ITEM 5: Enter any disbursements from the cohort during the fiscal year for working capital purposes.

ITEM 6: Enter net of item 3 minus sum of Items 4 and 5 (if Item 3 Is greater than items 4 and 5), otherwise enter 0.

ITEM 7: Enter net of Items 4 plus 5 minus Item 3 (if items 4 plus 5 Is greater than item 3), otherwise enter 0.

ITEM 8: Enter current year average annual interest rate.

ITEM 9: Enter time factor of .5.

ITEM 10: Enter product of items 6 x 8 x 9.

ITEM 11: Enter product of Items 7 x 8 x 9.

**GUARANTEED LOAN PROGRAM INTEREST INCOME AND EXPENSE
COMPUTATIONS
MODULE 3**

Compute Interest income on prior year balances.

EXAMPLE

1. Adjusted cash balance in financing account, beginning of current year	100,000
2. Weighted average interest rate, beginning of current year	.0600
3. Time factor	1.0
4. Interest income on prior year balance	6,000

INSTRUCTIONS

ITEM 1: Enter adjusted cash balance in financing account as of the beginning of the current year (see module 4 of previous year for original computation).

ITEM 2: Enter weighted average Interest rate as of the beginning of current year.

ITEM 3: Item factor of 1.0 years.

ITEM 4: Product of Item 1 x 2 x 3.

**GUARANTEED LOAN PROGRAM INTEREST INCOME AND EXPENSE
COMPUTATIONS
MODULE 4**

Compute year end cash balance.

EXAMPLE

1. Adjusted cash balance In financing account, beginning of year	100,000
2. Interest Income on prior year balance (module 3)	6,000
3. Interest Income (+) or reduction in interest income (-) for current year transactions (module 2)	105
4. Total Interest Income	6,105
5. Net collections (+) or disbursements (-) for current year (module 2)	3,000
6. Adjusted cash balance in financing account end of year	109,105

INSTRUCTIONS

ITEM 1: Enter adjusted cash balance in financing account at beginning of current year (item 6 of previous year).

ITEM 2: Enter interest income on prior year balance from module 3.

ITEM 3: Enter interest income on current year transactions as a positive value or reduction In interest Income as a negative value (module 2).

ITEM 4: Enter the sum of item 2 and the plus or minus value in item 3.

ITEM 5: Enter net collections or disbursements for current year from module 2.

ITEM 6: Enter sum of items 1, 4 and 5.

0409 STANDARD GENERAL LEDGER (SGL) ACCOUNTS**040901. Credit Reform Accounts and Definitions.**

The following accounts were established by the Treasury Department to implement requirements of the Federal Credit Reform Act of 1990 and are intended to account for direct and guaranteed loans. These accounts will be included with those general ledger accounts currently in Volume 1, "General Financial Management Information, Systems, and Requirements," Chapter 7, "Department of Defense Standard General Ledger," Addendum 2, "Department of Defense Accounting/Sub-Account Descriptions."

1399 Allowance for Subsidy. Credit Balance. This amount reflects the unamortized credit reform subsidy for direct loans and for defaulted guaranteed loans assumed for collection by the government. It appears in the financing fund of the direct loan, or loan guarantee, program involved and is subtracted from loans receivable (account 1350) on the statement of financial position. All transactions that affect the subsidy will be recorded in this account.

1921 Receivable from Appropriations. Debit Balance. The amount to be received from appropriations to fund current or future expenses for which the appropriations are already authorized by law.

1922 Borrowings Receivable from Treasury. Debit Balance. The amount of cash to be received for loan programs through borrowing from the Treasury.

2180 Loan Guarantee Liability. Credit Balance. This account is in the financing fund for loan guarantee programs. All transactions that affect the subsidy for loan guarantees will be recorded in this account. It represents the expected present value of cash flows to, and from, the government from loan guarantees.

2930 Liability for Borrowings to be Received. Credit Balance. The estimated amount of funds that an agency can borrow from Treasury to cover the cost of loans to be disbursed.

2950 Liability for Subsidy Related to Undisbursed Loans. Credit Balance. The amount of subsidy owed by the financing fund for direct and guaranteed loans which have not been disbursed. This liability will be liquidated when the loan is disbursed. If the loan is not disbursed, the accrued subsidy must be removed from the financing fund.

2970 Resources Payable to Treasury. Credit Balance. Liquidating Fund assets in excess of liabilities that are being held as working capital. After liquidating all liabilities, these funds will be returned to Treasury.

4001 Anticipated Total Resources. Debit Balance. The account used (for year-end closing) to consolidate the total amount of resources expected to be received by the financing fund from all

sources (program fund receipts, borrowing from Treasury, collections of principal, and collections of loan interest).

4042 Anticipated Borrowing Authority. Debit Balance. The anticipated authority that permits a federal agency to incur obligations, and make payments, for specific purposes out of monies borrowed from Treasury.

4044 Anticipated Reductions to Borrowing Authority. The estimated amounts of reductions during the fiscal year to borrowing authority.

4047 Anticipated Payments to Treasury. Credit Balance. The anticipated amounts to be paid to Treasury to transfer pre-1992 resources or to repay borrowing under credit reform.

4060 Anticipated Collections from Non-Federal Sources. Debit Balance. The amount anticipated to be collected from non-Federal sources in the current fiscal year for loan programs (fees, loan principal, loan interest, rent, and proceeds from the sale of collateral).

4070 Anticipated Collections from Federal Sources. Debit Balance. The amount anticipated to be collected from Federal sources in the current fiscal year for loan programs (actual program fund subsidy-current, actual program fund subsidy - permanent, and interest from Treasury).

4115 Loan Subsidy Appropriation-Definite-Current. Debit Balance. The amount of definite current budget authority appropriated by law for loan subsidies in direct loan and loan guarantee programs.

4116 Entitlement Loan Subsidies Appropriation-Indefinite. Debit Balance. The amount of indefinite budget authority appropriated for subsidies in loan entitlement programs.

4117 Loan Administrative Expense Appropriation-Definite- Current. Debit Balance. The amount of definite current budget authority appropriated by law for administrative expenses in direct loan and loan guarantee programs.

4118 Re-estimated Discretionary Loan Subsidy Appropriation- Indefinite - Permanent. Debit Balance. The amount of indefinite permanent budget authority appropriated for direct loan and loan guarantee subsidies based upon reestimates.

4121 Loan Subsidy Appropriation-Indefinite-Current. Debit Balance. The amount of current indefinite budget authority appropriated to the program fund for loan subsidies in direct loan and loan guarantee programs.

4147 Actual Payments to Treasury. Credit Balance. The amounts paid to the Treasury Department to transfer pre-1992 resources, or to repay borrowings, under credit reform.

4201 Total Actual Resources. Debit Balance. The account is used to consolidate the total amount of actual resources received from all sources.

4261 Actual Collection of Fees. Debit Balance. The total amount of fees received from non-Federal sources during the year for loan programs.

4262 Actual Collection of Loan Principal. Debit Balance. The total amount of loan principal received from non-Federal sources during the year for loan programs.

4263 Actual Collection of Loan Interest. Debit Balance. The total amount of loan interest received from non-Federal sources during the year for loan programs.

4264 Actual Collection of Rent. Debit Balance. The total amount of rent received from non-Federal sources during the year for loan programs.

4265 Proceeds from Collateral. Debit Balance. The amount received from the sale of collateral.

4266 Other Actual Collections. Debit Balance. The total amount of collections from non-Federal sources received during the year by direct loan programs for which a specific SGL account is not otherwise required.

4271 Actual Program Fund Subsidy-Definite-Current. Debit Balance. The amount of current definite subsidy received during the year by the financing fund from the program fund for loan programs.

4272 Actual Program Fund Subsidy-Indefinite-Permanent. Debit Balance. The amount of permanent indefinite subsidy received during the year by the financing fund from the program fund for the loan program.

4273 Interest from Treasury. Debit Balance. The amount of interest received during the year by the financing fund from Treasury for loan programs.

4274 Actual Program Fund Subsidy-Indefinite-Current. Debit Balance. The amount of current indefinite subsidy received during the year by the financing fund from the program fund for direct loan and loan guarantee programs.

4275 Actual Receipts from Liquidating Accounting. Debit Balance. The amount the financing fund receives during the year from the liquidating account for assuming pre-credit reform loan guarantees for which the terms have been modified.

4276 Actual Collections from Financing Fund. Debit Balance. The amount the liquidating fund receives from the financing fund during the year for transfers of modified direct loans to the financing fund.

5799 Adjustment of Appropriated Capital Used. Debit Balance. The amount of adjustment to financing sources in the program fund to reflect the amount of excess subsidy funds returned to Treasury by the financing fund.

6199 Excess Subsidy Returned. Credit Balance. The amount of adjustment to subsidy expense in the program fund to reflect the amount of excess subsidy funds returned to Treasury by the financing fund as a result of a reestimate.

8010 Guaranteed Loan Level. Debit Balance. The amount of guaranteed loan commitments; supportable by the subsidy budget authority of new commitments, or in the case of negative subsidies, the amount authorized by appropriation acts.

8015 Guaranteed Loan Level-Unapportioned. Credit Balance. The amount of guaranteed loan level not yet apportioned by OMB.

8020 Guaranteed Loan Level-Appportioned. Credit Balance. The amount of category A and B guaranteed loan level that is available for allotment.

8025 Guaranteed Loan Level-Allotted and Available to Lenders. Credit Balance. The amount of category A and B guaranteed loan level allotted to program managers for which commitments may be made this period to lenders.

8030 Guaranteed Loan Level-Administrative Commitments Prior to Signing Contracts. Credit Balance. The amount of category A and B guaranteed loan level committed in anticipation of signing a contract.

8035 Guaranteed Loan Level-Contract Signed-Undisbursed by Lenders. Credit Balance. The amount of category A and B contracts for guaranteed loans that will be disbursed by a lender.

8040 Guaranteed Loan Level-Disbursed by Lenders. Credit Balance. The amount of category A and B guaranteed loan principal disbursed by the lender.

8045 Guaranteed Loan Level-Unused Authority. Credit Balance. The amount of category A and B guaranteed loan level for which contracts have not been signed.

8050 Guaranteed Loan Principal Outstanding. Credit Balance. The amount of guaranteed loan principal outstanding with the lender. At the end of the year accounts 8053 through 8068 are closed to this account.

8053 Guaranteed Loan New Disbursements by Lender. Credit Balance. The amount of guaranteed loan principal disbursed during the current year by lenders.

8056 Guaranteed Loan Repayments and Prepayments. Debit Balance. The amount paid during the current year by the borrower to the lender as principal repayment and prepayment of guaranteed loans.

8059 Guaranteed Loan Default-Loan Acquired. Debit Balance. The amount of guaranteed loan principal reduced by termination for default this current year that leads to the acquisition of a loan receivable by the agency.

8062 Guaranteed Loan Default-Property Acquired. Debit Balance. The amount of guaranteed loan principal reduced by terminations for default this current year that leads to the acquisition of property by the Agency.

8065 Guaranteed Loan Default-Claim Payment Only. Debit Balance. The amount of guaranteed loan principal reduced by termination for default this current year that leads to claim payments by the agency that does not result in the acquisition of a loan receivable or property.

8068 Guaranteed Loan Adjustments. Debit or Credit Balance. The amount of guaranteed loan principal reduced, or increased, this current year by reasons other than repayment or default, i.e., outstanding principal balances of guaranteed loans transferred to or received from other accounts.

8070 Guaranteed Loan Principal to be Collected. Debit Balance. The amount of guaranteed loan principal outstanding with the lender.

0410 Credit Reform Definitions04101. Credit Reform Accounts and Definitions.

Cohort. Direct loans obligated or loan guarantees committed by a program in the same year, even if disbursements occur in subsequent years or the loans are modified. Modified pre-1992 direct loans will constitute a single cohort; modified pre-1992 loan guarantees will constitute a single cohort. For loans subsidized by no-year or mullet-year appropriations, the cohort may be defined by the year of obligation.

Direct Loan. A disbursement of funds by the Government to a non-Federal borrower under a contract requiring repayment of such funds with or without interest. The term includes the purchase of, or participation in, a loan made by a non-Federal lender. It also includes the sale of a Government asset on credit terms of more than 90 days duration.

Financing Account. The non budget account or accounts associated with each credit program account for post-1991 direct loans or loan guarantees. It holds balances, receives the subsidy cost payment from the credit program account, and includes all other cash flows to and from the Government. All credit programs require financing accounts. Separate financing accounts are required for direct loans and loan guarantees even if the subsidy costs for both are provided in the same appropriation. For new credit programs, a written request must be sent to the Department of the Treasury Financial Management Service before account symbols are established for the loan financing accounts. Financing accounts are usually established as revolving funds in the public enterprise fund group series 4000-4499. As part of the loan guarantee contract, a agency may be required to provide an interest differential to the non-Federal lender. These interest supplement payments are recorded in the financing account and disbursed to non-Federal lenders.

Financing Tranche. All direct or guaranteed loans with a cohort, separately identified by risk category, that are disbursed in the same quarter and have the same maturity interval. All borrowing from Treasury and all interest earned on uninvested funds from Treasury for a given financing tranche will be at the same interest rate (yield). The use of financing tranches is optional.

Liquidating Account. The budget account that includes all cash flows to and from the Government resulting from pre-1992 direct loans or loan guarantees. Cash flows associated with modified direct loans and loan guarantees are treated as exceptions. The liquidating accounts are the "old" credit accounts, whose transactions are counted on a cash basis in calculating budget outlays and the deficit. Liquidating accounts are not subject to credit reform accounting except for the effect of modifications. If the liquidating account receives collections in excess of the account liability, the collections are returned to Treasury via an SF 1151: Non-Expenditure Transfer Authorization as a capital transfer. The excess collections are returned to the miscellaneous receipt account "2814" preceded by the agency's two-digit department code.

Loan Guarantee. Any guarantee, insurance, or other pledge with respect to the payment of all or a part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender. It does not, however, include the insurance of deposits, shares, or other withdrawable accounts in financial institutions. When a pre-1992 loan guarantee is modified it becomes subject to credit reform accounting. The guarantee liability is transferred from the liquidating account to the financing account. A one-time adjusting payment is made from the liquidating account to the financing account. Subsequent cash flows will be recorded directly to the financing account. When a loan guarantee is in default, the defaulted loan claim of the non-Federal lender is paid from the financing account.

Modifications. Any Government action that alters the estimated subsidy cost, compared to the estimate contained in the most recent budget submitted to Congress, of an outstanding direct loan (or direct loan obligation) or an outstanding loan guarantee (or loan guarantee commitment). Action permitted within the terms of an existing contract are the only exception. Modifications to pre-1992 direct loans and loan guarantees are included in this definition, as well as modifications to post-1991 direct loans and loan guarantees. For pre-1992 direct loans and loan guarantees, the loan asset or guarantee liability will be transferred from the liquidating account the appropriate financing account. A one-time adjusting payment will be made between the liquidating and financing accounts. The subsequent cash flows will be recorded in the financing account.

Post-1991. Direct loan obligations or loan guarantee commitments made on or after October 1, 1991, and the resulting direct loans or loan guarantees.

Pre-1992. Direct loan obligations or loan guarantee commitments made prior to October 1, 1991, and the resulting direct loans or loan guarantees.

Program Account. The budget account into which an appropriation to cover the subsidy cost of a direct loan or loan guarantee program is made and from which such cost is disbursed to the financing account. Usually, a separate amount for administrative expenses is also appropriated to the program account. Each program account is associated with one or two financing accounts, depending on whether the program account makes both direct loans and loan guarantees. The program account pays subsidies to the financing account for post-1991 direct loans and loans guarantees, for modifications, and for reestimates. These subsidy payments are counted in calculating budget outlays and the deficit

Reestimates. The recalculation of the subsidy cost of each risk category within a cohort of direct loans or guaranteed loans. Reestimates must be made at the beginning of each fiscal year following the year in which the initial disbursement was made and as long as the loans are outstanding, unless a different plan is approved by OMB.

Subsidy. The estimated long-term cost to the Government of a direct loan or loan guarantee, calculated on a net present value basis, excluding administrative costs. In net present value terms it is the portion of the direct loan disbursement that the Government does not expect to recover, or the portion of expected payments for loan guarantees that will not be offset by collections. The subsidy may be for post-1991 direct loan obligations or loan guarantee commitments, for reestimates of post-1991 loans or guarantees or for modifications of any direct loan or loan guarantees. When the estimated subsidy is negative, an amount equal to the negative subsidy will be paid from the financing account to a special fund receipt account for that program when the loan guarantee is disbursed. If a subsidy reestimate for a cohort is negative, the amount of that reestimate is recorded in the same way.

Uninvested balance. The fund balance with Treasury that is held by the financing account, including undisbursed borrowings and offsetting collections. This balance earns interest from Treasury as determined by the weighted-average interest rate for each specific maturity range within the financing account.

Special Fund Receipt Accounts. Treasury requires written request prior to establishing account symbols for special fund receipt accounts, which will collect negative subsidies and downward reestimates. These unavailable receipt symbols are classified in special fund receipt series.

Miscellaneous Receipts Accounts. This account is automatically established by Treasury for interest payments. Detailed reporting instruction applicable to this account can be found in the "Treasury Reporting Instructions for Credit Reform Legislation, paragraph 4620.40 preceded by the agency 2-digit department code.

Subclassed Accounts. Subclassed Accounts are existing fund symbols preceded by a 2-digit prefix, used to distinguish certain transactions (for instance, [95]99X4200, [85]99X4200, and [65]99X4200). Subclassed are used when repaying or borrowing funds to/from the Treasury on an SF 1151: Nonexpenditure Transfer Authorization. Subclassed accounts are also used to record payment of subsidy appropriations from the program account to the financing account on an SF 224: Statement of Transactions. The subclasses are:

1. Principal Borrowing - 95
2. Principal Repayment - 85
3. Subsidy Payment - 65

Interest Rates. Interest rates for Credit Reform subsidy calculations, budget execution, borrowing, uninvested funds and working capital balances can be obtained from the Department of Commerce Economic Bulletin Board (EEB). New interest rates are posted to the EBB each quarter by Treasury and are used for agency computations during the quarter. These rates remain fixed for one quarter and are categorized with the following maturity intervals:

3. 10 years, up to but, not including 20 years
4. 20 years and longer.

The rate used for subsidy calculations, borrowing and interest on uninvested funds must be for a maturity comparable to the maturity of the direct or guaranteed loan being made. However, working capital balances will earn interest on the rate specified for "0 years, up to and including 1 year".

Borrowings and Repayments from Treasury. The Credit Reform Act of 1990 provides financing accounts with indefinite authority to borrow from Treasury. To streamline agency activity, agencies will borrow from Treasury, once a year, an amount that reflect estimated yearly requirements (based on figures used to calculate the subsidy appropriation, unless better estimates are available). The borrowing will be dated the first day of the fiscal year, October 1. If necessary, agencies may initiate another borrowing (during the fiscal year) for an additional amount, which will also be dated October 1.

If an agency has insufficient funds to make an annual interest payment to Treasury at year end, an additional borrowing should be initiated. This borrowing will be dated September 30 and will carry the same maturity date as the original borrowing. Using the September 30 date will alleviate the recalculation of the interest payment due to the Treasury and the amount of interest to be paid on uninvested funds.

Certification. When requesting a borrowing, each SF 1151 must contain an agency certification stating that the borrowing is necessary to meet the estimated annual cash requirements and is based upon the most reliable data available. This statement must be included within the body of the SF 151 document.

Authority. In this block, the legislative authorization for the borrowing transaction should be cited. For borrowings subject to Part 2, Chapter 4600, of the Treasury Reporting Instruction for Credit Reform Legislation, reference Public Law 101-508, 104 Stat. 1388-613.

Signature. Borrowing transaction will be approved and signed by the Financial Management Branch. Repayments will be approved and signed by the authorized agency representative.

Pre-Modification Value. is the present value of the net cash inflows of direct loans. It is estimated at the time of modification under pre-modification terms. It is discounted at the interest rate applicable to the time when the modification occurs on marketable Treasury securities that have a comparable maturity to the remaining maturity of the direct loans under pre-modification terms (simply stated, the pre-modification terms at the current rate).

Post-Modification Value. is the present value of the net cash inflows of direct loans. It is estimated at the time of modification under post-modification terms. It is discounted at the interest

Post-Modification Value. is the present value of the net cash inflows of direct loans. It is estimated at the time of modification under post-modification terms. It is discounted at the interest rate applicable to the time when the modification occurs on marketable Treasury securities that have a comparable maturity to the remaining maturity of the direct loans under post-modification terms (simply stated, the post-modification terms at the current rate).

OMB instructions provide that if the decrease in book value exceeds the cost of modification, the reporting entity will receive from the Treasury Department an amount of "modification adjustment transfer" equal to the excess. Conversely, if the cost of modification exceeds the decrease in book value, the reporting entity will pay to the Treasury Department an amount of "modification adjustment transfer" to offset the excess.

Post-Modification Liability. is the present value of the net cash outflows of the loan guarantees. It is estimated at the time of modification under the post-modification terms. It is discounted at the interest rate applicable to the time when the modification occurs on marketable Treasury securities that have a comparable maturity to the remaining maturity of the guaranteed loans under post-modification terms (simply stated, the post-modification terms at the current rate).

Pre-Modification Liability. is the present value of the net cash outflows of loan guarantees. It is estimated at the time of modification under the pre-modification terms. It is discounted at the interest rate applicable to the time when the modification occurs on marketable Treasury Securities that have a comparable maturity to the remaining maturity of the guaranteed loans under pre-modification terms (simply stated, the pre-modification terms at the current rate).

OMB instructions provide that if the increase in liability exceeds the cost of modification, the reporting entity receives from the Treasury Department an amount of "modification adjustment transfer" equal to the excess. If the cost of modification exceeds the increase in liability, the reporting entity pays to the Treasury Department an amount of "modification adjustment transfer" to offset the excess.

Credit Reform: Cash Flows for Direct Loans

EXAMPLE: \$100 loan, 20%
subsidy, disbursed in one year.

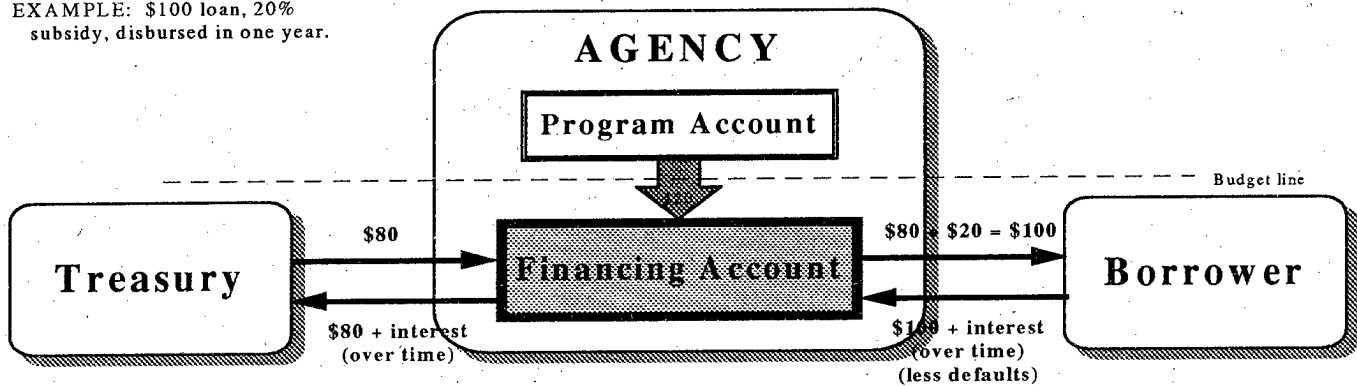


Figure 4-1.

1. Congress appropriates \$20 in subsidy budget authority (BA) to the **program account**.
2. The \$20 subsidy is obligated when the \$100 loan is obligated.
3. The \$20 subsidy is outlayed to the **financing account** at the time the \$100 loan is disbursed to borrower. Simultaneously, the **financing account** borrows the additional \$80 from **Treasury** need to make the \$100 loan.
4. The **borrower** pays fees, interest, and principal to the **financing account** under the terms of the contract.
5. The **financing account** makes payments to **Treasury** over time on the \$80 of borrowing. If the subsidy rate is accurate, the loan repayments (and other payments) to the **financing account** will be exactly the amount necessary to repay the original **Treasury** borrowing (\$80) plus interest.
6. If the subsidy is not accurate, a reestimate will be made and, as necessary, either (1) an additional subsidy will be disbursed from the **program account** to the **financing account** to cover the amount of the reestimate or (2) excess funds will be moved from the **financing account** to a **negative receipt account**, where these funds are unavailable until appropriated.

Credit Reform: Cash Flows for Loan Guarantees

EXAMPLE: \$100 loan with 75% Federal guarantee, 20% subsidy rate, disbursed in one year, upfront fee of 2%, and 40% default rate, no recoveries.

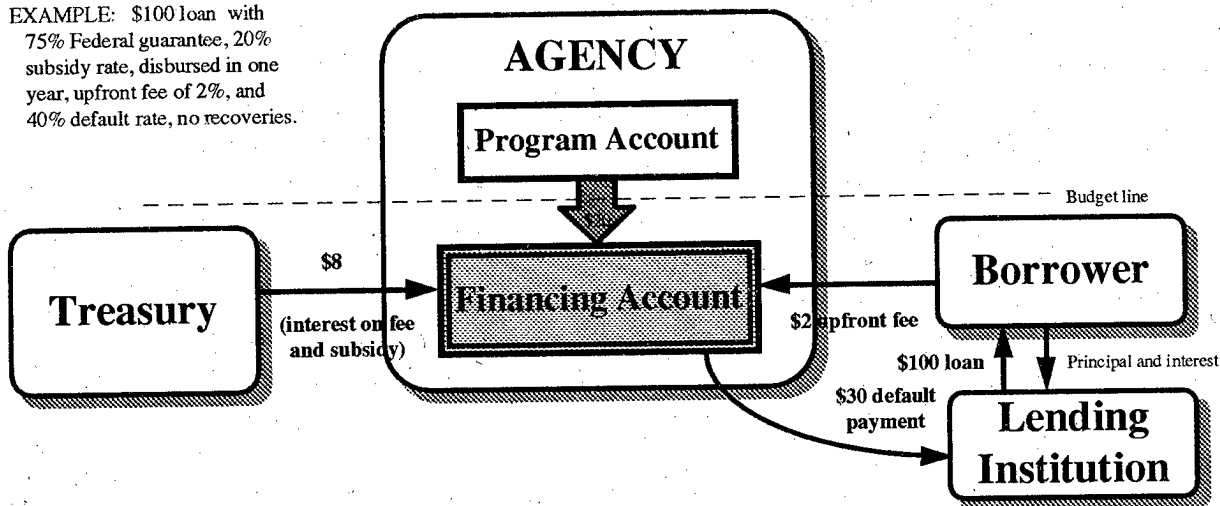


Figure 4-2.

1. Congress appropriates \$20 in subsidy budget authority (BA) to the **program account**.
2. The \$20 subsidy is obligated when the \$100 loan is obligated.
3. The **lending institution** lends a 75% Government guaranteed \$100 loan to the **borrower**. When the loan is disbursed, \$20 in subsidy BA is outlayed to the **financing account**. The **borrower** pays a 2% upfront fee to the **agency**, which is deposited into the **financing account**.
4. Reserves (uninvested funds) are held in the **financing account** and earn interest.
5. The **borrower** pays principal and interest to the **lending institution**.
6. If the **borrower** defaults, the reserves held in the **financing account** are used to make claim payments to the **lending institution**. If the subsidy rate is accurate, the **financing account** will have exactly the reserves needed to cover all defaults and other subsidies for that cohort of loans.
7. If the subsidy is not accurate, a reestimate will be made and, as necessary, either (1) additional subsidy will be disbursed from the **program account** to the **financing account** to cover the amount of the reestimate or (2) excess funds will be moved from the **financing account** to a **negative receipt account**, where these funds are unavailable until appropriated.

Standard Form 132

Office of Management and Budget

Circular No. A-34

Sheet 1 of 2

Fiscal year 19CY

APPORTIONMENT AND REAPPORTIONMENT SCHEDULE

Agency Bureau	Department of Government Office of the Secretary	Appropriation or Fund Title and Symbol	Amount on <u>Latest S.F. 132</u>	Agency <u>Request</u>	Action by <u>OMB</u>
<u>Description</u>					
<u>BUDGETARY RESOURCES</u>					
1. Budget authority:					
A. Appropriations P.L. 104-xxx					
B. Borrowing authority					
C. Contract authority					
D. Net transfers, current year authority (+ or -)					
E. Other					
2. Unobligated balance:					
A. Brought forward October 1					
B. Net transfers prior year balance, actual (+ or -)					
C. Anticipated transfers prior year balance (+ or -)					
3. Spending authority from offsetting collections (Gross):					
A. Earned:					
1. Collected					
2. Receivable from Federal sources					
B. Change in unfilled customers' orders (+ or -):					
1. Advance received					
2. Without advance from Federal sources					
C. Anticipated for rest of year:					
1. Advance for anticipated orders					
2. Without advance					
D. Transfers from trust funds:					
1. Collected					
2. Anticipated					
4. Recoveries of prior year obligations:					
A. Actual					
B. Anticipated					
5. Temporarily not available pursuant to P.L. ____(-)					
6. Permanently not available:					
A. Cancellations of expired and no-year accounts (-)					
B. Enacted rescission of prior year balances (-)					
C. Capital transfers and redemption of debt (-)					
D. Other authority withdrawn (-)					
E. Pursuant to P.L. ____(-)					
F. Anticipated for rest of year (+ or-)					
7. Total Budgetary Resources					

Figure 4-3.

Sheet 2 of 2
Fiscal year 19CY

<u>Description</u>	<u>Amount on Latest S.F. 132</u>	<u>Agency Request</u>	<u>Action by OMB</u>
8. Apportioned:			
Category A:			
(1) First quarter	_____	_____	_____
(2) Second quarter	_____	_____	_____
(3) Third quarter	_____	_____	_____
(4) Fourth quarter	_____	_____	_____
Category B:			
(1)	_____	_____	_____
(2)	_____	_____	_____
(3)	_____	_____	_____
(4)	_____	_____	_____
9. Withheld pending rescission	_____	_____	_____
10. Deferred	_____	_____	_____
11. Unapportioned balance of revolving fund	_____	_____	_____
12. Total Budgetary Resources	_____	_____	_____

Submitted _____ Apportioned _____
(Authorized officer) (Date)

4-43

Standard Form 132
Office of Management and Budget
Circular No. A-34

Sheet 1 of 2
Fiscal year 19CY

SF 133 REPORT ON BUDGET EXECUTION

Agency Bureau	Department of Government Office of the Secretary	Appropriation or Fund Title and Symbol					
Description	FY1997 Unexpired Account	FY1996 Expired Account	FY1995 Expired Account	FY1994 Expired Account	FY1993 Expired Account	FY1992 Expired Account	TOTAL
BUDGETARY RESOURCES							
1. Budget authority:							
A. Appropriations							
B. Borrowing Authority							
C. Contract authority							
D. Net transfers, current year authority (+or-)							
E. Other							
2. Unobligated balance:							
A. Brought forward October 1							
B. Net transfers prior year balance, actual (+or-)							
C. Anticipated transfers prior year balance (+or-)							
3. Spending authority from offsetting collections (Gross)							
A. Earned:							
1. Collected							
2. Receivable from Federal sources							
B. Change in unfilled customers' orders (+or-)							
1. Advance received							
2. Without advance from Federal sources							
C. Anticipated for rest of year:							
1. Advance for anticipated orders							
2. Without advance							
D. Transfers from trust funds:							
1. Collected							
2. Anticipated							
4. Recoveries of prior year obligations:							
A. Actual							
B. Anticipated							
5. Temporarily not available pursuant to P.L. ____(-)							
6. Permanently not available:							
A. Cancellations of expired and no-year accounts (-)							
B. Enacted rescission of prior year balances (-)							
C. Capital transfers and redemption of debt (-)							
D. Other authority withdrawn (-)							
E. Pursuant to P.L. ____(-)							
F. Anticipated for rest of year (+or-)							
7. Total Budgetary Resources							

Figure 4-4.

STATUS OF BUDGETARY RESOURCESSheet 2 of 2
Fiscal year 19CY

<u>Description</u>	<u>FY1997 Unexpired Account</u>	<u>FY1996 Expired Account</u>	<u>FY1995 Expired Account</u>	<u>FY1994 Expired Account</u>	<u>FY1993 Expired Account</u>	<u>FY1992 Expired Account</u>	<u>TOTAL</u>
8. Obligations incurred:							
A. Category A, direct obligations	_____	_____	_____	_____	_____	_____	_____
B. Category B, direct obligations	_____	_____	_____	_____	_____	_____	_____
1. Subcategory 1	_____	_____	_____	_____	_____	_____	_____
2. Subcategory 2	_____	_____	_____	_____	_____	_____	_____
3. Subcategory 3	_____	_____	_____	_____	_____	_____	_____
C. Not subject to apportionment	_____	_____	_____	_____	_____	_____	_____
D. Reimbursable obligations	_____	_____	_____	_____	_____	_____	_____
9. Unobligated balance:							
A. Apportioned:							
1. Balance currently available	_____	_____	_____	_____	_____	_____	_____
2. Anticipated	_____	_____	_____	_____	_____	_____	_____
B. Exempt from apportionment	_____	_____	_____	_____	_____	_____	_____
C. Other available	_____	_____	_____	_____	_____	_____	_____
10. Unobligated balance not available							
A. Apportioned for subsequent periods	_____	_____	_____	_____	_____	_____	_____
B. Deferred	_____	_____	_____	_____	_____	_____	_____
C. Withheld pending rescission	_____	_____	_____	_____	_____	_____	_____
D. Other	_____	_____	_____	_____	_____	_____	_____
11. Total Budgetary Resources							

RELATION OF OBLIGATIONS TO OUTLAYS

12. Obligated balance, net as of October 1	_____	_____	_____	_____	_____	_____	_____
13. Obligated balance transferred, net (+or-)	_____	_____	_____	_____	_____	_____	_____
14. Obligated balance, net, end of period:							
A. Accounts receivable	_____	_____	_____	_____	_____	_____	_____
B. Unfilled customer orders (-)	_____	_____	_____	_____	_____	_____	_____
1. Federal sources without advance	_____	_____	_____	_____	_____	_____	_____
2. Federal sources with advance	_____	_____	_____	_____	_____	_____	_____
3. Non-Federal sources with advance	_____	_____	_____	_____	_____	_____	_____
C. Undelivered orders (+)	_____	_____	_____	_____	_____	_____	_____
D. Accounts payable (+)	_____	_____	_____	_____	_____	_____	_____
15. Outlays:							
A. Disbursements (+)	_____	_____	_____	_____	_____	_____	_____
B. Collections (-)	_____	_____	_____	_____	_____	_____	_____

(Authorized Officer)_____
(Date)(Preparer Name)
(Address)
(Phone number)

Figure 4-4. (Cont).

Calendar of Credit Reform Program Activities

Figure 4-5

<u>Approximate Time</u>	<u>Agency/Budget & Execution</u>	<u>Agency/Accounting</u>
ONGOING (throughout the year)	<p>Update historical databases used for estimating credit subsidies. Update cashflow models to reflect program changes and historical loan performance. Continue to improve cashflow modeling and projection capabilities. (Mainly in spring and summer, but should be conducted on a ongoing basis.)</p> <p>Develop and tracking of performance measures. Work with OMB on subsidy estimate review.</p> <p>Allotment, obligation of funds for loan obligation and guarantee commitments.</p>	<p>Maintain accounting systems and control.</p> <p>Ongoing improvements for information systems and capability for credit management.</p> <p>Provide historical data and financing account cohort data to budget office for subsidy estimates and reestimates.</p> <p>Provide OMB with ongoing reports on status of credit reform cohorts.</p>
February March April	<p>Budget transmittal to Congress.</p> <p>Provide information to auditors on subsidy estimates used for budget execution.</p> <p>CONGRESSIONAL BUDGET HEARING/LEGISLATION: Congressional testimony on budget including justification of assumptions underlying subsidy estimates and re-estimates.</p>	<p>Prior year actuals presented in the President's Budget.</p> <p>Audit continues.</p> <p>March 1 (goal): Issue audited Financial Statements for prior year.</p>
May June	<p>Prepare internal subsidy estimate for upcoming budget cycle for Departmental submission and decision.</p>	<p>Provide financial data to budget office to support internal subsidy estimates for upcoming budget cycle.</p>
July August	<p>Provide midseason estimates. (Note: Some agencies perform annual subsidy reestimates at this time.)</p>	<p>Begin preparing for year-end close and audit.</p> <p>Develop footnote template for financial statements.</p>
September	<p>BUDGET SUBMISSION: Submit budget requests based on midseason economic assumptions to be updated at time of issuance of final economic assumptions.</p> <p>Initial submissions should include: proposed program changes (new fees, etc.), projected loan levels, estimated subsidies with notation that discount rates will change. Reestimates and performance</p>	<p>Assist budget office in collecting data for budget submission, including updated actuals, data necessary for reestimates, and financial statement information.</p>

Calendar of Credit Reform Program Activities

Figure 4-5

<u>Approximate Time</u>	<u>Agency/Budget & Execution</u>	<u>Agency/Accounting</u>
October	<p>APPORTIONMENT: Use first quarter interest rates to calculate subsidy rate for budget execution. Prepare apportionment forms. Subsidy rates for apportionment should be updated for new "explicit technical assumptions" but should retain same forecast technical assumption as President's Budget.</p> <p>Initial allotment, obligation of funds for loan obligations and guarantee commitments.</p> <p>REESTIMATES: Calculate final reestimates for all loans disbursed in prior years, using actual annual interest rate, actual loan or guarantee cashflow and updated assumptions about expected performance of each cohort.</p>	<p>Prepare final receipts, outlays. FMS form 2108 due.</p> <p>Track apportionments and balances in budgetary and financial accounts, to ensure reconciliation with budget transactions.</p> <p>CALCULATE INTEREST ON FINANCING ACCOUNTS: Use actual annual interest rates for calculation of interest to and from financing accounts.</p> <p>Complete and reconcile transactions relating to elimination entries.</p> <p>Prepare report on guaranteed loans (SF 220-8) and report on receivables due from the public (formerly SF 220-9).</p>
November December	<p>Work with accounting staff to reconcile end-of year balance sheet estimates to budget formulation estimates to be entered into the MAX database.</p>	<p>Prepare final reports on Budget Execution (SF-133) through GOALS between November 17-27.</p> <p>Prepare final reports on obligations (SF 225).</p> <p>December 1 - Adjusted trial balance.</p>
January	<p>Prepare final subsidy estimate, loan level requests, and estimated interest on financing accounts for President's Budget based on passback and using final economic assumptions. These estimates will be for both Presidential Policy and Baseline.</p> <p>MAX data entry based on OMB approved subsidy model output. Budget galley preparation and review.</p> <p>Preparation of forms for Federal Credit Supplement to the Budget.</p> <p>Document assumptions underlying subsidy estimates for Congressional review.</p>	<p>Provides unaudited data to OIG. Audit adjustments to auditor.</p> <p>Update of agency statements. Electronic transmissions, audit of adjustments.</p> <p>Transmit footnotes.</p>

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CHAPTER 5

GRANTS AND COOPERATIVE AGREEMENTS0501 OVERVIEW

050101. Purpose. This chapter prescribes the guidance to be followed by DoD Components to account for and control grants and cooperative agreements. Other guidance on grants and cooperative agreements is contained in DoD 3210.6-R, "DoD Grant and Agreement Regulations."

050102. General

A. DoD grants and cooperative agreements are federal assistance agreements under which payments in cash and/or in kind are made for specified purposes. The major difference between grants and cooperative agreements is that grants are assistance awards for which no substantial involvement is anticipated between the Department of Defense and the recipient during performance of the contemplated activity, whereas cooperative agreements may require substantial involvement. However, the accounting treatment for the two types of agreements is similar. Recipients of DoD grants and cooperative agreements include individuals, nonprofit organizations, local and state governments, U.S. territories, and federally recognized tribal governments.

B. DoD grants and cooperative agreements include formula grants to states and project grants for (1) construction of armories and other major projects, (2) military base reuse studies and community planning, (3) impact assistance for areas affected by the East Coast Trident Program, and (4) cooperative agreements placed under the DoD Procurement Technical Assistance Program. Grants and cooperative agreements do not include (1) technical assistance programs that provide services instead of money; (2) contracts that are entered into and administered under procurement laws and regulations; and (3) agreements under which only direct cash assistance to individuals, a subsidy, a loan, a loan guarantee, or insurance is provided. Under the Foreign Military Financing program the DoD accounts for grants made to foreign nations allied to the United States. These grants provide the financing to U.S. allies for acquisition of U.S. military articles, services and training. Financial policies for these grants are described in Volume 15 of this regulation.

C. The acceptance of an assistance award from the Department of Defense creates a legal duty on the part of the recipient to use the available funds or property in accordance with the terms and conditions of the assistance agreement. Payments may be made in advance or as reimbursement for either work performed or costs incurred by awardees. This Chapter provides guidance for issuing advances to grantees. Recipients are required to return to the Department of Defense (1) the unused balances of advance payment awards (plus earned interest, unless recovery is prohibited by statute), (2) any funds improperly applied, and (3)

property or facilities purchased or otherwise made available under the conditions of the awards, unless legal title thereto is vested unconditionally in the recipient by the terms of the award.

D. Authoritative requirements for the uniform administration of grants and cooperative agreements are contained in DoD 3210.6-R, "DoD Grant and Agreement Regulation," the Office of Management and Budget (OMB) Circular No. A-102, "Uniform Administrative Requirements for Grants-in-aid to State and Local Governments" and OMB Circular No. A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations." The "Catalog of Federal Domestic Assistance," updated annually by the OMB and the U.S. General Services Administration, is the basic reference source for DoD assistance programs.

0502 ACCOUNTING STANDARDS FOR GRANTS AND COOPERATIVE AGREEMENTS

050201. Accounting for a DoD grant or cooperative award begins with the execution of an agreement or the approval of an application or similar document which sets out the amount and purpose of the award, the performance period, the obligations of the parties to the award, and other terms. A legal obligation to disburse the assistance funds, in accordance with the terms of the agreement, occurs upon execution of an agreement or an approval of an application or similar document.

050202. Advance payments to award recipients shall be accounted for as advances by the DoD Component until the recipient has performed under the award or contract.

050203. When the recipient has performed under the grant or cooperative agreement, the DoD Component shall record an expense in an amount equal to the cost of the services performed or cost incurred and reduce the advance account by a like amount.

050204. Payments to award recipients as reimbursement for work performed or costs incurred shall be accounted for as expenditures and as expenses incurred, or as reductions of liabilities if the expenses were recorded previously.

050205. When title to assets acquired by award recipients vests with the U.S. Government, the DoD Component shall establish appropriate general ledger accounting control and property records, and include the assets in its financial statements. The assets shall be recorded at acquisition cost to the award recipient and depreciated in accordance with the guidance stated in chapters 1 and 6 of Volume 4.

050206. A refund receivable shall be established by the DoD Component to recover all expenses upon a determination that a recipient has failed to meet the requirements of the grant.

050207. At the termination of a grant or cooperative agreement, funds unused or improperly applied by the recipient shall be established as an account receivable by the DoD Component.

050208. Guidance to record the related obligations, advances to grantees, and expensing of grants is provided in Chapter 16 of Volume 3, and Chapters 5 and 7 of Volume 4 of this Regulation.

0503 ACCOUNTING FOR GRANTS

050301. Table 5-1 illustrates the most common entries associated with grants awarded by DoD Components.

0504 FINANCIAL MANAGEMENT FOR GRANTS AND COOPERATIVE AGREEMENTS

050401. The Defense Finance and Accounting Service shall ensure the availability of a financial management information system capable of recording and monitoring grant and cooperative agreement transactions and providing, by transaction, a delineation of federal and awardee shares of program costs. The system shall enable the DoD Component to identify quickly the basic categories of funds involved, along with the related obligation and expenditure rates, and provide for ensuring fund availability prior to awarding financial assistance and obligating funds.

050402. Projected cash requirements shall be obtained from major awardees no later than the receipt of the initial request for funds. The projections shall identify the times, amounts, and purposes for which cash is needed; be reviewed and approved by program officials; and be recorded in the financial management information system.

050403. Requests for cash advances shall be compared to the projected cash requirements before disbursements are made. Reasons for significant variations between requests for advances and projected cash requirements shall be determined and, if necessary, adjustments made. Advances may be made covering many awards to facilitate cash management and to simplify accounting for both the recipient and the Federal Government. The advances shall be liquidated based upon reports of expenditures and the return of funds.

050404. Expenditure reports, by award, shall be prepared as a means for comparing planned with actual expenditures. DoD Component program and financial management staffs shall determine the causes of any significant variances and adjust planned and actual expenditures as needed. The reports shall be reviewed for evidence of performance and reconciled with requests for advance payment and reimbursement. Awardees shall be notified of potential overdrafts and, unless additional funds are made available, the approximate date on which federal funds will expire.

ACCOUNTING ENTRIES FOR GRANTS

1. Dr 1413 Advances to Grantees
Cr 1012 Funds Disbursed
To record authorized advance payments to award recipients.
2. Dr 6123 Grants, Subsidies, and Contributions
Cr 1413 Advances to Grantees
To record recipient's performance under the grant or cooperative agreement.
3. Dr 6123 Grants, Subsidies, and Contributions
Cr 1012 Funds Disbursed
Cr 1413 Advances to Grantees
To record payments to award recipients as reimbursement for work performed or costs incurred.
4. Dr 1710 Land
Dr 1730 Buildings
Dr 1740 Other Structures and Facilities
Cr 1012 Funds Disbursed
Cr 1413 Advances to Grantees
To record the vesting of title in the government of fixed assets acquired by award recipients.
5. Dr 1316 Refunds Receivable-Public
Cr 6123 Grants, Subsidies, and Contributions
To record a receivable to recover all expenses upon a determination that a recipient has failed to meet the requirements of a grant.
6. Dr 1316 Refunds Receivable-Public
Cr 1413 Advances to Grantees
Cr 1710 Land
Cr 1730 Buildings
Cr 1740 Other Structures and Facilities
Cr 6123 Grants, Subsidies, or Contributions
To record at the termination of a grant or cooperative agreement unused funds or funds that were improperly applied by the recipient.

TABLE 5-1

050405. Disbursements, whether by check or electronic funds transfer, shall be timed to minimize Treasury's financing costs and the time elapsing between the transfer of funds from the U.S. Treasury and subsequent disbursement by the recipient for program purposes. DoD Component systems shall ensure that disbursements are controlled in accordance with guidance contained in chapter 2 of Volume 4.

050406. DoD Components are responsible for ensuring that cash is not disbursed to and/or maintained by awardees in excess of their immediate disbursement needs. DoD Components shall take remedial steps such as switching to the reimbursement method of financing, reducing the size of payments, or denying payment requests until recipients exhaust excess funds if a lack of performance dictates, if the recipient persistently maintains excessive balances of Federal cash, or if the recipient does not establish adequate cash control procedures. Systems, procedures, and reports shall be designed to ensure that excess balances are readily identified and promptly turned over to the Department of the Treasury. Interest charges on excess balances shall be levied and collected as authorized by law.

050407. When the reimbursement method of financing is used, payment to the recipient should be made within 30 days after receipt of the billing.

050408. DoD Components shall maintain appropriate records of property acquired by recipients for which title rests or may rest with the U.S. Government.

050409. Financial and compliance audits of recipients of assistance awards shall be conducted in accordance with OMB guidance. Appropriate actions, such as withholding new awards and/or delaying payments, shall be considered when awardees fail to comply with applicable requirements.

050410. Amounts due as a result of a sustained audit finding shall be recorded promptly upon entitlement as an account receivable. The transaction occurs, for example, when an audit report is issued for matters for which the auditor is authorized to make the final determination. The receivable shall be recorded even though the decision to collect is subject to administrative appeal or litigation by persons outside the agency. Interest, at the rate prescribed in the "Treasury Financial Manual," shall begin to accrue no later than 30 days after the date the auditee was notified of the debt and continue to accrue while an appeal is underway.

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CHAPTER 6

DEFENSE EMERGENCY RESPONSE FUND0601 OVERVIEW

060101. Purpose. The purpose of this Chapter is to establish the policy and procedures governing the Defense Emergency Response Fund.

060102. General. The Defense Emergency Response Fund was established to provide obligational authority to appropriations of the DoD Components:

- Upon a determination by the Secretary of Defense that immediate action is necessary in response to natural or manmade disasters; and
- In anticipation of reimbursable orders from other Federal Departments and agencies and from state and local governments.

A. The Treasury index symbol of the Emergency Response Fund is 97X4965. The purpose of this Fund is to prevent an adverse impact on DoD mission accomplishment that otherwise could result from the use of mission funds to finance disaster relief efforts. The Fund initially was capitalized at \$100 million. Reimbursements received for the cost of DoD support provided shall be deposited to the Emergency Response Fund. Assistance provided for disasters or emergencies shall be as prescribed in DoD Directive 3025.1, "Military Support to Civil Authorities."

B. The Secretary of Defense; or his designated representative, the Secretary of the Army; may direct utilization of DoD resources in response to a major disaster or emergency. The DoD resources may be committed within the United States, its territories, possessions, and administrative and commonwealth areas.

C. Requests for assistance from the governor of a state, or an acting governor in the absence of a governor, should be submitted to the Associate Director of the Federal Emergency Management Agency (FEMA) through the appropriate FEMA regional director. Upon receipt of the request, the FEMA regional director shall gather adequate information to support a recommendation and forward it to the Associate FEMA Director. If the Associate FEMA Director determines that such work is essential to save lives and protect property, he/she will issue a mission statement to the Department of Defense authorizing federal assistance to the extent deemed appropriate.

D. The Department shall ensure that support is provided in accordance with the approved scope of work, costs, and time limitations in the mission assignment. The

Department also shall keep the FEMA regional director and officials of the affected state advised of work progress and other project developments. It is DoD's responsibility to ensure compliance with applicable federal, state and local legal requirements. A final report will be submitted to the FEMA regional director upon termination of all direct federal assistance work. Final reports shall be signed by representatives of the Department and the state. Once the final eligible cost is determined, DoD will request reimbursement from the FEMA.

E. The DoD Executive Agent may direct DoD Components to respond to any emergency, based on authority provided by DoD Directive 3025.1 or obtained from the Secretary or Deputy Secretary of Defense. If an emergency of any kind or size requires a response on behalf of the Department but, where there has not been any declaration of a major disaster or emergency by the President, or if reimbursement of funds to the Department of Defense is uncertain, the DoD Executive Agent will determine the authority prior to any commitment of DoD resources:

1. Authorizations by the DoD Executive Agent under the provisions of DoD Directive 3025.1, subsection D.7., shall include (but are not limited to) commitment of funds from the Defense Emergency Response Fund in anticipation of reimbursement to that Fund.

2. Authorizations shall be obtained from the Secretary or Deputy Secretary of Defense, through their Special Assistant, if DoD response is not clearly required by federal law, by this Regulation or under departmental plans approved by the DoD Executive Agent.

0602 POLICY AND PROCEDURES

060201. Appropriation Receipt and Apportionment. The Defense Finance and Accounting Service (DFAS) shall be responsible for recording the appropriation warrant (TFS Form 6200), when received, on applicable accountable records. The Office of the Deputy Comptroller (Program/Budget) is responsible for preparation of the Apportionment/Reapportionment Schedule (SF 132) and the issuance of funding authorizations.

060202. The Secretary of Defense shall, in response to an undeclared civil emergency and/or formal or informal request by the FEMA, or other appropriate party, and in anticipation of reimbursable orders, direct the DoD Executive Agent to authorize necessary action in response to a natural or manmade disaster occurring within a state, territory, possession, administrative, or commonwealth area of the United States.

060203. Initiation of DoD Response

A. The absence of a formal reimbursement agreement need not delay a DoD response; however, every effort should be made to insure that the agreement is executed as soon

as possible after the inception of DoD support. The agreement shall specify that reimbursement shall be in accordance with the provisions of paragraph B.4.

B. As the designated DoD Executive Agent, the Secretary of the Army shall fulfill those responsibilities specified in DoD Directive 3025.1. The Executive Agent, through his/her designee, the Director of Military Support, shall estimate the amount of funds required for each DoD response to an emergency condition, and request an allotment of program authority from the Deputy Comptroller (Program/Budget).

C. The Office of the Deputy Comptroller (Program/Budget) shall issue a fund authorization release letter to the Executive Agent in the lesser of (a) the amount requested, or (b) the unallocated funds within the Defense Emergency Response Fund. Amounts appropriated to the Fund are direct program authority. Amounts reimbursed to the Fund are reimbursable program authority. Allotments of the fund authorization shall be provided from reimbursable program amounts, to the extent that such amounts are available, prior to utilization of direct program authority.

D. The DFAS shall record fund availability and provide accounting support to the Executive Agent. Reimbursable task orders, issued by the Executive Agent or his/her authorized representatives, to the DoD Components requested to provide assistance (performing activities) shall be obligated against the authorized fund allotment for that emergency. The DFAS shall record the issuance of the reimbursable orders to the performing activities.

E. The performing activity shall record receipt of the reimbursable order and provide assistance in accordance with the direction received from the Executive Agent.

F. After the DoD begins its initial response operations, it is necessary to estimate the total funding needs for the duration of that emergency. Within about ten days after the disaster, estimates of total costs to date and resources required to finish the job should be developed by major object class (as described in OMB Circular A11) and furnished to the on-site Federal Coordinating Officer (FCO) and the DFAS.

060204. Reimbursable Costs. Generally, only incremental costs in providing assistance are reimbursable. Specifically, the following costs are eligible for reimbursement:

A. Overtime, travel, and per diem of permanent DoD civilian personnel.

B. Wages, travel, and per diem of temporary DoD civilian personnel assigned solely to performance of services directed by the Executive Agent.

C. Travel and per diem of active duty military personnel, and costs of reserve component personnel called to active duty by a federal official who are assigned solely to the performance of services directed by the Executive Agent.

D. Cost of work, services, and material procured under contract for the purposes of providing assistance directed by the Executive Agent.

E. Cost of materials, equipment and supplies (including transportation, repair and maintenance) from regular stocks used in providing directed assistance.

F. All costs incurred which are paid from trust, revolving, or other funds, and whose reimbursement is required by law.

G. Other costs submitted with written justification or otherwise agreed to in writing by the Executive Agent.

060205 Requests for Reimbursement

A. Performing DoD Activities. Reimbursement may be requested through use of the SF 1080, "Voucher for Transfers Between Appropriations/Or Funds," for reimbursement by Treasury check or by SF 1081, "Voucher and Schedule of Withdrawals and Credits." Requests for reimbursement shall be documented with specific details on personnel services, travel, costs of contracts for services, materials, supplies, and miscellaneous expenses and all other expenses by object class as specified in OMB Circular A-11 and by any subobject class used in the performing activity's accounting system. The Fund shall reimburse performing activities for the duration of relief operations or to the extent that reimbursement to the Fund for that effort by others is known or reasonably probable. DoD activities requesting reimbursement from the Fund shall maintain all financial records, supporting documents, statistical records and other records pertinent to the provision of services or use of resources by those activities. These materials must be accessible to duly authorized officials for the purpose of making audits, excerpts, and transcripts, for a period of 6 years 3 months from the date of submission of the final billing.

B. DFAS and FEMA. The DFAS shall receive and consolidate requests for FEMA reimbursement of Fund expenditures. Requests for reimbursement to FEMA may be submitted at any time; however, a final billing should be submitted within 90 days after completion or termination of the mission. Requests for reimbursement for FEMA directed domestic emergencies shall be submitted via an SF 1080 or SF 1081 to the applicable FEMA Regional Director, FEMA Region #, Attention: Program Support Officer. The SF 1080 or 1081 prepared for FEMA reimbursement should include, in addition to normally provided information, an identifier as to why reimbursement is requested. The identifier should read "Federal Response Plan" and be followed by the FEMA assigned disaster number and state (each state is assigned a specific disaster number). Work performed based on a mission assignment letter from the FEMA shall cite the specific mission assignment under which the work was performed as well as the disaster number. Requests for reimbursement for foreign disasters shall be submitted as directed in the authorizing reimbursable agreement. The SF 1080 or SF 1081 should be accompanied by an attachment which explains the following:

1. Amount previously billed;
2. Current billing amount;
3. Cumulative amount billed to date; and
4. An explanation of charges broken down by:

a. Personal services including regular time and overtime with the number of hours and total cost.

b. Travel and transportation separating per diem and other travel expenses.

c. Materials, supplies, and miscellaneous expenses including separate identification of any single item costing \$1,000 or more. Items of expendable property or supplies costing less than \$1,000 need not be identified. Costs for rental space should be listed separately.

d. Costs of contracts for services listed by title and costs.

e. Other eligible costs.

060206. Reimbursement of Identified Costs

A. The DFAS shall, in providing accounting support to the Executive Agent, reimburse from the funds allotted for that emergency, performing activities for costs incurred, as specified in paragraph B.4., by those activities and billed to the Defense Emergency Response Fund (97X4965).

B. Collections of funded costs recovered for disaster assistance provided shall be deposited to the credit of the Defense Emergency Response Fund (97X4965) through use of DD Form 1131, "Cash Collection Voucher" or equivalent document. The DFAS, acting as the representative of the Executive Agent, will be responsible for follow up of uncollected reimbursement requests made to the FEMA as prescribed in paragraph 060205, above.

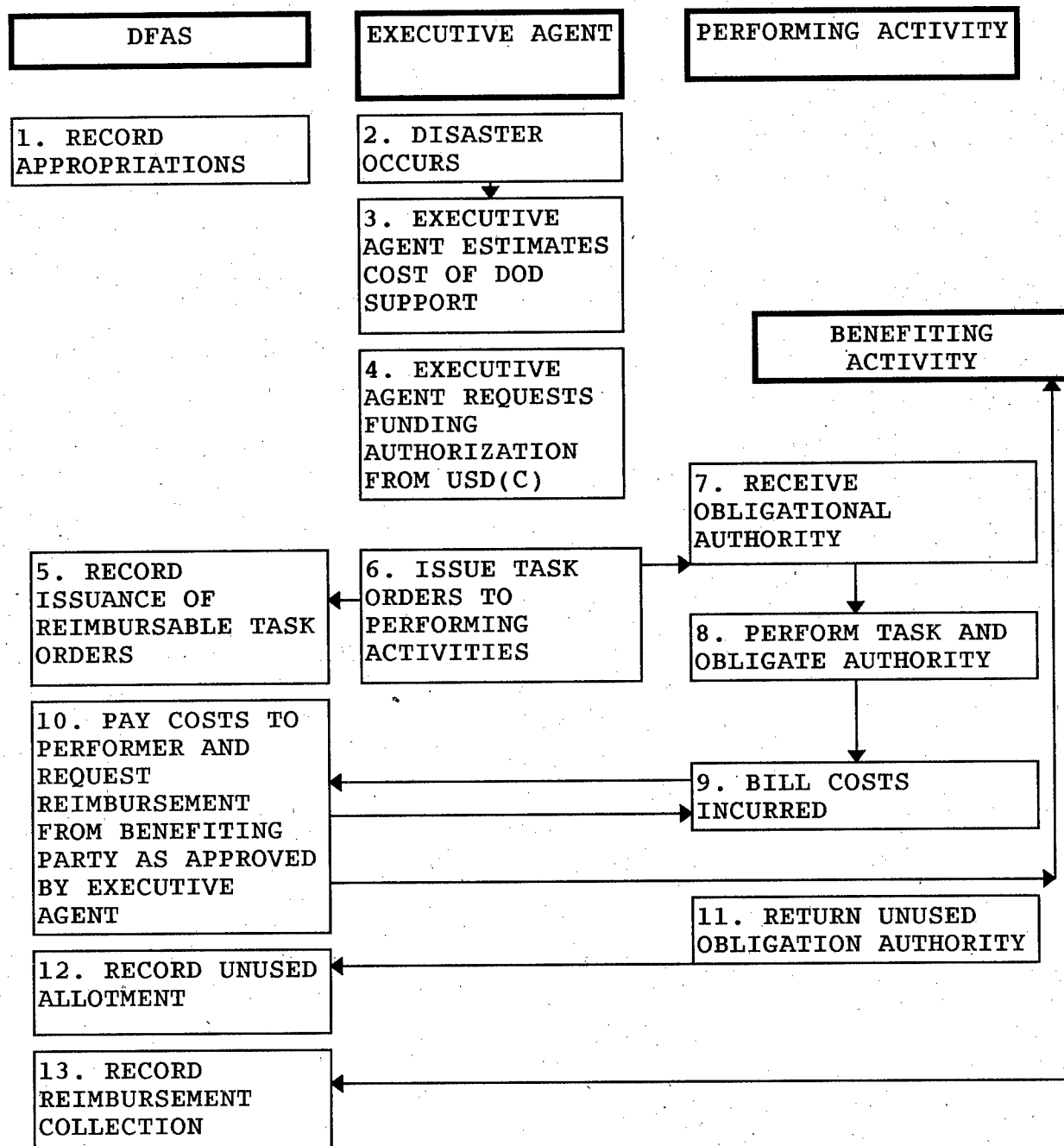
0603 RESPONSIBILITIES

060301. Financial Reporting. The DFAS shall prepare the appropriation and fund status reports for the Defense Emergency Response Fund required by Volume 6 of this Regulation. The reports required for the Defense Emergency Response Fund are:

- A. Year-End Closing Statement, TFS 2108
- B. Report on Budget Execution, SF 133
- C. Flash Report on Obligation Status, Acct Rpt(M)1445
- D. Report on Obligations, SF-225, IRCN 1183-TD-QU
- E. Report on Reimbursements, Acct Rpt(M)725
- F. Financial Statements prescribed by the DoD as required by the Chief Financial Officers Act of 1990.

060302. The Executive Agent/Director of Military Support (DOMS) shall inform the Office of the Deputy Comptroller (Program/Budget) of the need for an additional appropriation, if necessary, to maintain the Defense Emergency Response Fund at its authorized level.

OVERVIEW - DEFENSE EMERGENCY RESPONSE FUND



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CHAPTER 7

**FINANCIAL LIABILITY FOR
GOVERNMENT PROPERTY LOST, DAMAGED OR DESTROYED**0701 OVERVIEW

070101. Purpose. This Chapter provides for the implementation of policies and responsibilities outlined in DoD Directive 7200.11, "Liability for Government Property Lost, Damaged, or Destroyed." This Chapter prescribes how to:

A. Account for loss, damage, or destruction of Government property, determine the amount of financial liability of those found to be responsible for such financial losses, provide relief from accountability, and establish debts resulting from the assessment of financial liability.

B. Inquire, research, and investigate the causes of the loss, damage, or destruction of Government property.

C. Assess financial liability with respect to lost, damaged, and destroyed Government property.

D. Initiate DD Form 200, "Financial Liability Investigation of Property Loss."

070102. Responsibilities

A. Under Secretary of Defense (Comptroller). The Under Secretary of Defense (Comptroller) is responsible for financial policies regarding financial liability for government property lost, damaged or destroyed.

B. DoD Components. The DoD Components shall ensure that the policies and procedures of this Chapter are implemented and are responsible for the following:

1. Determining and assessing the amount of financial liability of those responsible for such losses;

2. Mitigation or reduction of, or relief from, financial liability in appropriate cases;

3. Establishing debts resulting from the assessment of financial liability and refer them for appropriate collection action.

0702 GENERAL REQUIREMENTS

070201. Purpose. This section prescribes general requirements regarding accounting for lost, damaged, or destroyed Government property.

070202. Minimum Requirements. Based on the policies established in DoD Directive 7200.11, the following minimum requirements must be addressed:

A. Investigation. Investigate to ascertain the cause of the loss, damage, or destruction.

B. Proximate Cause. Determination of whether the loss, damage, or destruction was proximately caused by an individual's negligence or abuse.

C. Adjustment. Adjustment of accountable records.

D. Administration. Administration of a system to determine whether a responsible party should be held financially liable for a loss.

070203. INITIATION OF INQUIRIES

A. General. An inquiry shall be initiated immediately after discovery of the loss, damage, or destruction. This inquiry shall be an informal proceeding designed to determine the facts and circumstances leading to the loss, damage, or destruction. The approving authority is responsible for establishing procedures and designating a person to initiate and conduct the inquiry. The person conducting the inquiry shall be responsible for completing blocks 1. through 11. of the DD Form 200, as described in section 0706. At a minimum, this inquiry should identify:

1. What happened.
2. How it happened.
3. Where it happened.
4. Who was involved.
5. When it happened.

6. Any evidence of negligence, willful misconduct, or deliberate unauthorized use or disposition of the property.

B. Evidence of Negligence

1. When inquiring into the loss, damage, or destruction of government property, the first consideration is whether there is evidence of negligence. Some questions to be asked are: "Would a reasonably prudent individual have acted in this manner?" "Were there procedures governing the use of the property, and were they followed?" "What were the circumstances that existed when the loss actually occurred?" "Was the individual on the job?" For example, if a dump truck is parked on an incline, a reasonable person would be expected to set the hand brake and leave the vehicle in park. Using blocks under the wheels might or might not be required. If the individual failed to set the brake and/or use blocks under the wheels and the truck rolled down the incline and was damaged, this could be considered evidence of negligence. A reasonably prudent person would be expected to take precautions.

2. With respect to loss, damage, or destruction of government quarters by military personnel, a distinction between simple and gross negligence is needed. Evidence of simple or gross negligence depends on the conduct of the individual. If the individual failed to exercise precautions or good judgment, then simple negligence applies. If the individual's conduct was characterized by a reckless, deliberate, or wanton disregard of foreseeable consequences, then gross negligence applies. Evidence of whether simple or gross negligence was the proximate cause of the loss or damage is based on the facts and circumstances and shall be documented during the inquiry process.

C. Unrecorded Property. The requirements of this chapter apply whether or not the Government property is recorded on an accountable record.

D. Losses Involving a Shortage of Public Funds. Proceeds of sales of property or services not yet deposited with a DoD disbursing officer are considered accountable property and are subject to the policies and procedures in this chapter.

E. Exceptions

1. Motor vehicle accident investigation reports may be used to document an inquiry. However, when the documentation clearly indicates that negligence or abuse is involved, or if a claim against the Government is possible, a DD Form 200 shall be prepared.

2. Item discrepancies attributed to shippers and transportation discrepancies attributed to carriers are processed and reported according to "Reporting of Item and Packaging Discrepancies," (Non-FMS) and "Processing Discrepancy Reports Against Foreign Military Sales Shipments" (FMS), and "Reporting of Transportation Discrepancies in Shipments." However, item discrepancy reports should be reviewed and evaluated to determine if the circumstances of the loss or damage appear to have been caused by negligence or abuse by DoD personnel. If so, a DD Form 200 shall be prepared.

F. DD Form 200. A DD Form 200 is used to document the facts and circumstances of the loss. (A DD Form 200 is not required when an individual voluntarily makes restitution to the government for the full amount of the loss and a controlled item is not involved.)

070204. Voluntary Payments. Individuals may voluntarily choose to pay the government for lost, damaged, or destroyed government property any time prior to involuntary collection from their pay. Individuals offering the payment do so on their own volition. The government does not seek any advantage or forego any right by accepting a voluntary payment. An individual cannot be coerced or threatened with adverse action if payment is not voluntarily made. Individuals must be made aware of the effect of making a voluntary payment. That is, it may not be later withdrawn, avenues for relief will no longer be available, and voluntary payment does not preclude other administrative or disciplinary action contemplated by an individual's commander. Individuals offering to pay in excess of basic pay for one month by military members or one twelfth of annual pay by civilian employees must be made aware that their liability may be a lesser assessment as a result of an investigation. Voluntary payments may be made in cash or by payroll deduction.

070205. Review. After accountable and/or responsible officers have completed their inquiry, the DD Form 200 shall be sent to the appointing authority for review. The appointing authority shall determine if a financial liability officer or financial liability board is needed to conduct an investigation. The general criteria for appointing a financial liability officer is in paragraph 070402.A. The criteria for appointing a financial liability officer for inventory losses is in paragraph 070807. Legal officials and the member's commander must be consulted before statements are taken from anyone if there is a suspected violation of the Uniform Code of Military Justice (10 U.S.C. Chapter 47).

070206. Financial Liability Officer Investigations. The appointing authority may appoint a financial liability officer to determine whether the facts and circumstances support the findings and recommendations of the individual completing blocks 9. and 10. on the DD Form 200. Qualifications, duties, and responsibilities of financial liability officers are discussed in section 0704.

070207. Financial Liability Board. The appointing authority may appoint a financial liability board in lieu of an officer. The reasons for appointment of a board include the complexity, size, or unique type of loss due to negligence or abuse. The composition, objectives, and functions of the board are discussed in section 0705.

070208. Determination of Financial Loss

A. Computation of Financial Loss. A documented computation of the financial loss to the government shall be made when there is evidence to indicate that the loss was proximately caused by negligence or abuse.

1. When damaged property or items can be repaired economically or restored in condition to that immediately prior to the loss, the loss to the government shall be based on the cost of repair or restoration. If the cost to repair or restore the property exceeds the cost to replace the property, the loss to the government shall be as determined in paragraph, 070208.A.2, below.

2. When property is lost, damaged, or destroyed beyond economical repair, and the property is not replaceable, the amount of the loss shall be the fair market value of the property immediately before the loss. When a fair market value cannot readily be determined, the amount shall be the acquisition cost or standard price, adjusted for depreciation based on the specified depreciation period for such item or if such a period has not been specified, based on its estimated useful life. Depreciation shall be computed using the straight line method of depreciation. In no case should property be depreciated below its scrap value. For property that is damaged beyond economical repair, the scrap or salvage value of the property shall be used to reduce the loss to the government.

B. Liability. Financial liability of individuals is based on the actual loss to the government, as computed in paragraph 070208.A, above. When liability is limited by the individual's rate of pay (see DoD Directive 7200.11), the amount of the actual loss to the government still is computed. However, in such cases, the financial liability of the individual either is the actual amount of the loss or the limitation based upon the rate of pay, whichever is less.

C. Collective Liability. If more than one individual is found liable financially for the loss, damage, or destruction of government property, the individuals shall be collectively liable for the loss to the government, subject to the limitations in DoD Directive 7200.11. Because the government cannot collect more than the total amount of assessed liability, the approving authority who assessed financial liability will decide how much to collect from each individual. Among the factors to be considered in taking collection action from each liable individual are the degree of each individual's responsibility for the loss, damage, or destruction and the ability to collect for the loss from the responsible individual.

070209. Notification and Examination. When financial liability is recommended, the individual shall be notified and given the opportunity to examine the findings and recommendations, obtain representation, make a rebuttal statement, and present any mitigating factors that may have contributed to the negligence or abuse. If damage to government housing is involved, an individual also shall be given the opportunity to request a waiver of the financial liability, as stated in DoD 4165.63-M, "DoD Housing Management."

0703 APPROVING AND APPOINTING AUTHORITY

070301. Duties and Responsibilities

A. Approving Authority. DoD Component regulations shall designate who may be an approving authority. The approving authority's responsibilities may be delegated; however, the delegations must be in writing. The approving authority also may act as the appointing authority or designate an appointing authority in writing. The approving authority shall:

1. Designate an appointing authority, when needed.
2. Disqualify himself or herself when a conflict of interest is possible because the loss relates to property for which he or she is responsible and/or accountable.
3. Establish procedures and designate a person to initiate and conduct an inquiry immediately after the loss, damage, or destruction is discovered (see paragraph 070203.A).
4. Ensure that all DD Forms 200 received are accurate and complete. Evaluate each DD Form 200 and either approve recommendations to assess financial liability or relieve those involved from liability, responsibility or accountability. The approving authority approves or disapproves all DD Forms 200, regardless of dollar value, unless otherwise delegated in writing.
5. Ensure that all gains and losses which require a formal investigation are promptly and thoroughly investigated. The system used to process DD Forms 200 must be frequently reviewed to evaluate the accuracy and timeliness of the investigations.
6. Ensure that DD Forms 200 are initiated, processed and adjudicated within the time limits that may be established by the DoD Components.
7. Require, if delays occur in the initiating or processing of a DD Form 200, a written explanation of the reason for the delay and take appropriate corrective actions.
8. Ensure that persons held financially liable are so notified, informed of their rights (including waiver rights if Government housing is involved), and given the opportunity to inspect and copy the DD Form 200.
9. Personally evaluate each DD Form 200 when there is evidence of negligence or abuse.
10. Determine whether to delegate to the appointing authority the authority to approve or disapprove a DD Form 200 when there is no evidence of negligence or abuse.

11. Ensure, when financial liability is recommended, or when recommendations appear to be inconsistent with findings, that a judge advocate or civilian attorney has reviewed the findings and provided an opinion on the adequacy of evidence and its relationship to the findings and recommendations. This legal review shall be included as part of the record with the DD Form 200 and completed before final action is taken by the approving authority.

12. Ensure that corrections of any attested entries are properly initialed and documented.

13. Overrule, when appropriate, the recommendations of the appointing authority and the financial liability officer. When this action results in the assessment of financial liability, the individuals not previously recommended for liability shall be advised of their rights and afforded an opportunity to exercise their rights.

14. Formally notify individuals against whom he or she has approved financial liability.

B. Appointing Authority. The appointing authority is designated in writing by the approving authority. The approving authority also may act as appointing authority. The appointing authority is responsible for the following tasks:

1. Appoint a financial liability officer, if needed.

2. Appoint a board in lieu of a financial liability officer to conduct the investigation, if warranted. Reasons for considering appointment of a board include complexity, size, or unique type of loss due to negligence or abuse. (See section 0705.)

3. Provide administrative guidance to the financial liability officer or the board.

4. Review DD Forms 200 for accuracy and compliance with this Regulation.

5. Approve or disapprove the recommendations of the financial liability officer or the board, and forward personal recommendations to the approving authority.

6. Approve or disapprove DD Forms 200 when there is no evidence of negligence or abuse and authorization has been delegated in writing by the approving authority.

7. Approve or disapprove DD Forms 200 when the gain or loss of inventory items is less than \$100,000 and authorization has been delegated in writing by the approving authority.

070302. Summary. The appointing and approving authorities must act on the DD Form 200 once an individual has been properly notified and given the opportunity to respond to the findings. Failure of involved individuals to respond to recommendations of financial liability is not a sufficient reason to delay the approval process if the individuals were given a reasonable opportunity to reply, as discussed in paragraph 070404.B.10.

0704 FINANCIAL LIABILITY OFFICER QUALIFICATION AND RESPONSIBILITIES

070401. Purpose. This section contains policies regarding the qualifications, duties, and responsibilities of individuals appointed to conduct an investigation and determine responsibility for lost, damaged or destroyed property listed on DD Forms 200. This section is concerned with criteria to determine whether a financial liability officer is required to be appointed, who may be appointed as a financial liability officer, and the duties and responsibilities of that individual. A financial liability officer's findings and recommendations are administrative, not judicial; therefore, the reports are purely advisory; the opinions do not constitute final determinations or legal judgments; and the recommendations are not binding upon appointing and approving authorities.

070402. Criteria

A. Appointment of Financial Liability Officer. The appointing authority should appoint a financial liability officer to conduct a formal investigation when:

1. Recommended by an accountable officer.
2. Directed by higher authority.
3. Deemed appropriate by the appointing authority (e.g., repetitive losses, evidence of negligence or abuse or large dollar losses).

B. Financial Liability Officer Duty. Unless operational requirements clearly dictate otherwise, a financial liability officer shall perform this function as a primary duty until the investigation has been completed.

070403. Financial Liability Officer Qualifications

A. Selection Criteria. A financial liability officer is selected based on training, experience, competence, and ability to conduct independent and objective investigations.

B. Persons Eligible. The financial liability officer shall be a commissioned officer; warrant officer; enlisted member in the grade of E-7, E-8, or E-9; or a civilian employee GS-07, or above. The financial liability officer shall normally be senior to the individuals directly involved in the discrepancy.

C. Use of Reserve Component Personnel. Reserve Component commissioned officers, warrant officers, and noncommissioned officers in grades E-7, E-8, or E-9 not on active duty may serve as financial liability officers during Reserve training sessions.

D. Relationship to Property. Any person who is accountable or responsible for, or in any way directly interested in, the property being investigated shall not be appointed as a financial liability officer.

070404. FINANCIAL LIABILITY OFFICER RESPONSIBILITIES AND DUTIES

A. General

1. The primary purpose of the DD Form 200 is to determine responsibility for lost, damaged or destroyed property. To determine such responsibility, the facts contributing to the loss, damage or destruction must be developed by investigation.

a. The investigation may establish the fact that some other individual is at fault. The financial liability officer shall not limit the investigation to verifying statements of interested parties. Rather, the financial liability officer shall perform an investigation as thoroughly as is needed, in his or her opinion, to ensure that all facts are fully developed, the interests of the government are fully served, and the rights of the involved individuals are fully protected.

b. An investigation is required to determine where responsibility and/or liability belongs without regard to the relationship of the responsible individual to the property. As an example, actions by the accountable officer, responsible officer, or property receipt holder should be investigated as well as actions of the users of the property.

2. The investigation conducted by the financial liability officer is the critical phase of the process. The financial liability officer should determine the actual facts, not as alleged but as they actually occurred. The financial liability officer's recommendations shall be evaluated in succeeding reviews; therefore, the recommendations must be supported by the findings and conclusions.

3. The financial liability officer should be able to make a determination from the findings and conclusions as to how the loss or damage occurred and whether negligence or abuse was involved.

4. After recording the findings and conclusions, the financial liability officer should make recommendations based on policies set forth in this Regulation. The financial liability officer shall recommend whether to assess financial liability.

5. A function of the financial liability officer is to afford to any person whose conduct or performance of duty may be subject to inquiry or who has a direct interest in the inquiry an opportunity to have their position considered, as described in paragraph 070404.B.10, below.

B. Conducting an Investigation. Financial liability officers shall conduct investigations promptly. They shall inform the appointing authority immediately of all delays experienced. In conducting the investigation, the financial liability officer shall personally:

1. Scrutinize all available evidence.
2. Interview witnesses and secure statements from individuals concerning:
 - a. The cause of the loss or damage.
 - b. The responsibility for the loss or damage.
3. Compile evidence substantiating or refuting any statement in block 9. of the DD Form 200.
4. Physically examine the damaged property, when available, and then release it for repair or disposal. This should be done on the first day of his or her appointment.
5. Consult the appointing authority for guidance, when needed.
6. Determine the amount of damage as described in paragraph 070208.A., if the property has been damaged. This value may be the cost of repairs or an estimate of the repairs obtained from technical manuals or other reliable sources. Determine the value of the property immediately before its damage if the property is not economically reparable. The accountable officer may be asked to assist if he or she has not been directly involved.
7. Ensure that action is taken to exercise control over the property if the property is recovered during the investigation.
8. Ensure that the total loss to the Government is computed correctly.

9. Coordinate actions with the claims investigating officer when the investigation may cover loss, damage or destruction of government property that is being, has been, or shall be investigated because of attendant events by a claims investigating officer. This includes cases where military personnel or civilian employees, while driving a private vehicle, damage government property and have insurance to pay for part of the loss.

10. Adhere to the following requirements:

a. Give any individual against whom the financial liability officer makes a finding of financial liability a chance to examine the report of investigation after the findings and recommendations have been recorded.

b. Give the individual being recommended for financial liability the opportunity to make a statement.

c. Inform the individual that his or her statement may be used against him or her with regard to financial liability and other administrative and disciplinary actions.

d. Fully consider and attach as an exhibit to the DD Form 200 any statement made by the individual(s).

e. Ensure that the individual being recommended for possible financial liability is aware of his or her rights under chapter 30, "Debt Collection by Involuntary Salary and Administrative Offset," of Volume 5 of this Regulation.

f. Request the individual to acknowledge his or her understanding of these rights by completing block 16. of the DD Form 200.

g. If appropriate, prepare a statement that the individual recommended for liability refused to sign block 17. of the DD Form 200 after being given the opportunity.

h. Mail a copy of the findings, recommendations, and evidence to the person against whom financial liability is recommended by certified mail with a return receipt requested when the person is not readily available. For example, the person may have been transferred or separated from one of the Military Services.

(1) A full explanation of the person's rights shall be included and a reply shall be requested.

(2) If the reply is not received within 30 days after the date of mailing, the financial liability officer shall record this fact and take action to complete the DD Form 200. The record shall be included in, or appended to, the DD Form 200.

(3) Any reply received subsequent to the expiration of 30 days shall be forwarded through the same channels as the DD Form 200 for attachment to the original DD Form 200.

i. Consider any new evidence received after a recommendation has been made. If the financial recommendations remain unchanged, the financial liability officer shall note that the added evidence was considered and shall provide a rationale for not changing the decision (e.g., no new evidence or the matters do not overcome the evidence supporting the original recommendations. The notation shall be on all copies of the report immediately following the original recommendation. If the financial liability officer makes a change in the original recommendations because of the new evidence, the officer shall record such change as "Amended Recommendations." These recommendations should be recorded immediately after the original recommendations.

0705 PURPOSE, APPOINTMENT, COMPOSITION, AND FUNCTIONS OF A FINANCIAL LIABILITY BOARD

070501. Purpose. A financial liability board may be appointed by the appointing authority for the specific purpose of conducting the investigation. The primary purpose of a financial liability board is to provide the appointing and approving authorities with adequate information upon which to assess liability or relieve the involved individual from liability for the loss, damage or destruction of government property. A board provides more resources than an officer to investigate losses that are large, complex, or unique. Financial liability boards are administrative, not judicial. Therefore, their reports are purely advisory, their opinions do not constitute final determinations or legal judgments, and their recommendations are not binding upon appointing and approving authorities. The board members will establish appropriate board procedures, such as voting, work priorities, and etc.

070502. Appointment and Composition

A. Selection. The members of a financial liability board are selected based on training, experience, competence, and ability to conduct independent and objective investigations. The senior member normally shall be designated as the Chair. The appointing authority shall not appoint an individual who was or is accountable or responsible, or has direct interest in the property, including a financial liability officer who may have previously investigated the loss of the property.

B. Composition. The financial liability board members shall be commissioned officers; warrant officers; enlisted members in grades E-7, E-8, or E-9; or civilian employees GS-07, or above. The board Chair and a majority of the board shall normally be senior in rank to the persons directly involved.

C. Use of Reserve Component Personnel. A source of financial liability board members is Reserve Component commissioned officers; warrant officers; and enlisted members in grades E-7, E-8, or E-9 during their Reserve training sessions.

070503. Functions. The following are specific functions of a financial liability board:

A. Primary Function. The primary function of a financial liability board is to research, develop, assemble, record and analyze all available information relative to the loss. The board is required to formulate and clearly express consistent findings of facts, conclusions, and recommendations.

B. Collateral Function. A collateral function of the financial liability board, especially when requested by the appointing authority, is to afford a hearing to any person whose conduct or performance of duty may be subject to inquiry or who has direct interest in the inquiry.

070504. Final Action by the Financial Liability Board. The board Chair completes his or her action on the DD Form 200 as the financial liability officer and recommends relief from, responsibility, or assessment of financial liability.

0706 PREPARATION OF DD FORM 200

070601. Purpose. The purpose of this section is to provide instructions for the preparation of the DD Form 200 "Financial Liability Investigation of Property Loss." Table 7-1 provides an example of a completed DD Form 200. The DD Form 200 is used to document the financial liability process for lost, damaged or destroyed Government property. When completed, the DD Form 200 is the official document to support the establishment of debts, relief from accountability, and adjustment of property records, supply system stock and financial records.

070602. Instructions for Preparation

A. Date Initiated. Self-explanatory.

B. Inquiry and/or Investigation Number. Number assigned to the inquiry and/or investigation in accordance with DoD Component instructions.

C. Date Loss Discovered. Self-explanatory.

D. National Stock Number (NSN). Enter the NSN(s), manufacturer's part number, or other identification number(s), in numerical sequence. If not applicable, enter the word "none."

E. Item Description. Enter the nomenclature of the item(s) including any serial number(s), model number(s), controlled inventory item, etc. If the item is nonstandard, give a brief description sufficient for identification. If only a portion of an end item is damaged, describe the end item, fully, then describe the damaged parts. If additional space is needed, a continuation sheet may be used.

F. Quantity. Enter the number of units and unit of issue (e.g., 1 each, 2 dozen, 5 pair, etc.).

G. Unit Cost. Enter the cost per unit shown in official catalogs, supply bulletins, or item records. The specific reference should be indicated for audit trail purposes.

H. Total Cost. Enter the total cost of all units of each article listed (block 6. x block 7.).

I. Circumstances Under Which Property Was Lost, Damaged, or Destroyed. Enter a complete statement of the facts, including the date and place of the incident. Include the name, grade, and social security number (SSN) of all persons directly involved. The statement must answer five basic questions of who, what, when, where and how. Identify any appropriate contract number(s), transaction number(s), control number(s), etc. Add as exhibits and identify alphabetically within the block, as needed.

J. Actions Taken to Correct Circumstances Reported in Block 9. and Prevent Future Occurrences. Include recommended actions by the accountable and/or responsible officer, and if appropriate by the financial liability officer, to the appointing and approving authorities.

K. Individual Completing Blocks 1. Through 10. Person conducting the inquiry.

L. Responsible Officer and/or Reviewing Authority. See definitions for "Responsible Officer" and "Reviewing Authority."

M. Appointing Authority. See section 0703 and definition for "Appointing Authority."

N. Approving Authority. See section 0703 and definition for "Approving Authority."

O. Findings and Recommendations of the Financial Liability Officer. Enter findings of the financial liability officer along with a recommendation regarding liability of the involved parties.

1. An indication that negligence on the part of the individual has not been determined.

2. A recommendation that the investigation be continued at some future time because of extenuating circumstances.

3. Recommendation for corrective actions.

4. Recommendation that the individuals involved in the loss, damage, or destruction be relieved of responsibility for the property when negligence cannot be established. State the facts on which the recommendations are based. Proper conclusions shall be drawn from available facts, not opinions or suspicions. The financial liability officer must sustain or refute the statements made in block 9. of the DD Form 200 and any other statements that are part of the inquiry and/or investigation. Do not use stereotyped phrases such as "loss or damaged in manner stated." The financial liability officer shall state in his or her own words how the loss or damage occurred based on the evidence obtained by the investigation.

5. Include a computation of charges, as prescribed paragraph 070208.A. when recommending financial liability. The computation should show how depreciation was calculated and other factors used in determining the loss, or reference should be made to the exhibit on which the computation is recorded. The results of the computation shall be entered in block 15.b.

6. Describe the disposition of the property. Items that have been classified as "uneconomically repairable" shall be turned in to the designated person (e.g.; property custodian, accountable officer, or Defense Reutilization and Marketing Service) when released by the financial liability officer or the appointing authority when a financial liability officer is not appointed.

7. Recommendations shall be entered immediately after the findings.
The recommendation shall include:

a. Financial liability to be assessed or relief from responsibility and accountability. Also, enter this information in block 15.d. For a military member enter monthly basic pay and for a civilian enter one-twelfth of the yearly salary.

b. Disposition instructions for any unserviceable property not previously sent to the Defense Reutilization and Marketing Service.

c. State clearly the full name, grade, SSN, and the amount of the charge, when recommending financial liability.

d. State if the DD Form 200 may cover the loss, damage, or destruction of property for which a claim is also being processed.

8. The recommendations must represent a logical and equitable decision developed from the facts cited in the evidence and findings.

9. Sign the DD Form 200 in block 15.j., at the end of the recommendations. (See sections 0704 and 0705, and definition for "Financial Liability Officer.")

P. Individual Charged. See paragraph 070404.B.10. Enter in block 16.d., the individual's name and rank or grade when financial liability is assessed. Enter in block 16.e., that individual's SSN. Initiate collection action by forwarding a copy of the approved DD Form 200 by transmittal document to the servicing disbursing officer. All continuation sheets are to be included and the attachments and exhibits excluded. The approved DD Form 200 is sufficient to hold a person financially liable and establish a debt.

Q. Accountable Officer. See definition. Record document numbers used to adjust property and financial records. All other blocks are self-explanatory.

0707 GOVERNMENT HOUSING LIABILITY

070701. Purpose. This section describes the liability of military personnel for the loss, damage, or destruction of government housing (family housing or unaccompanied personnel housing). It describes minimum requirements for assessing financial liability when government housing, including equipment or furnishings therein, is lost, damaged or destroyed. Government housing within the scope of this Chapter includes both permanent and temporary quarters either owned by, or controlled by, the U.S. Government.

070702. Policy

A. Determination of Proximate Cause. A member of a Military Service shall be held liable to the United States for the loss, damage or destruction of family housing or an unaccompanied personnel housing unit assigned to such member, including equipment and furnishings therein, when a determination is made that the loss, damage or destruction was proximately caused by the abuse or negligence of the member, a dependent of the member, or a guest either of the member or the member's dependent.

B. Financial Liability of Military Members. Financial liability against military personnel for loss, damage or destruction of Government housing, including equipment and furnishings therein, is assessed for the full amount of the loss if the loss, damage or destruction

was proximately caused by gross negligence or abuse. Liability of military members for damage to government housing and related equipment and furnishings is prescribed in 10 U.S.C. 2775 and DoD 4165.63-M, "DoD Housing Management."

C. Notification and Examination. Occupants who are assessed financial liability for loss of, or damage to, assigned government housing shall be notified in accordance with paragraph 070209. A member's failure to respond shall not preclude the government from completing a DD Form 200.

D. Determination of Negligence. Determinations must be made on whether the loss or damage to Government housing was proximately caused by simple or gross negligence or abuse of the member, the member's dependents, or guests of either. Such a determination leads to the following considerations:

1. When the proximate cause of the loss or damage is determined to be gross negligence or abuse, the financial liability of the member is the total amount of the loss to the government. Where a member's dependent or guest causes a loss or damage through gross negligence or abuse, the member is fully liable for the loss or damage if the member was "on notice" of the particular risk involved and failed to exercise reasonable, available opportunities to prevent or limit the loss or damage. In the absence of evidence to the contrary, the member is presumed to have been "on notice" of any risks attending the activities of family members and guests on the premises.

2. Where simple negligence is determined to be the proximate cause of the loss or damage, the financial liability of the member is limited to an amount equal to basic pay for one month at the rate in effect at the time of the loss, or the amount of the loss, whichever is less.

0708 SUPPLY SYSTEM MATERIEL

070801. Purpose. This section applies to personal property defined as "supply system materiel" and contains procedures to be followed when inventory losses are discovered. The provisions of this chapter are applicable to all activities accountable for supply system materiel including stock fund and other inventories (e.g., appropriated fund, industrial fund, etc.).

070802. Inventory. Physical inventories shall be taken in accordance with the provisions contained in this Regulation and DoD Instruction 4140.35 "Physical Inventory Control for DoD Supply System Material."

A. Discrepancies. Despite the safeguards established by DoD Components in the care and maintenance of supply system stocks, discrepancies may occur between stock record balances and materiel in storage. These discrepancies are subject to postcount validation,

preadjustment research, and causative research, as prescribed in chapter 7 of DoD 4000.25-2-M "Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP)."

B. Adjustments. An adjustment shall be made to the inventory and financial records to bring those records into balance after appropriate research. Care should be taken to process the transactions correctly (e.g., an issue posted twice should be corrected by a reversal (credit transaction), not as a loss of inventory). These types of corrected discrepancies are referred to as resolved discrepancies. For unresolved inventory losses, an inventory adjustment document or a DD Form 200 shall be used to substantiate adjusting the inventory and accounting records to the stock on hand and to provide relief from property accountability or responsibility.

C. Causative Research

1. Causative research shall be conducted for all inventory discrepancies that meet any of the criteria specified in DoD 4000.25-2-M, "Military Standard Transaction Reporting and Accounting Procedures (MILSTRAP)." For inventory discrepancies which do not meet the criteria for performing causative research, a justification for adjusting the inventory and accounting records and relief from property accountability shall be provided by means of an inventory adjustment document in accordance with section D., below.

2. One of the purposes of this research is to either establish liability or provide relief from accountability for the accountable and/or responsible officer(s) for the loss, damage or destruction of supply system materiel.

3. Another purpose of the research is to determine if the loss to the government was proximately caused by the negligence or abuse of individuals. If an individual accepts responsibility for the loss, damage or destruction of supply system materiel and voluntarily reimburses the government, a DD Form 200 is not required. The collection voucher may be used to adjust the financial and property records.

D. DD Form 200 Used in Substantiating Inventory Loss Adjustments. When authorized, the reviewing authority may approve physical inventory adjustments equal to or less than \$50,000, when negligence or abuse is not evident or suspected. When negligence or abuse is evident or suspected, the reviewing authority initiates and forwards the DD Form 200 to the appointing authority for action. The financial liability investigation shall be used to substantiate adjusting the stock record, and providing relief from property accountability.

070803. Resolved Inventory Losses

A. Accountability. The data developed by postcount validation, preadjustment research, and causative research shall be utilized to prepare correcting documentation so that the inventory accounting systems may be updated. These adjustments shall be processed in accordance with this Regulation and DoD 4000.25-2-M.

B. Statistics. This type of data shall be classified in accordance with Chapter 7 of DoD 4000.25-2-M and the data accumulated to identify trends and problem areas.

070804. Unresolved Inventory Losses that Do Not Meet the Criteria for an Investigation

A. Accountability. Relief from property accountability and justification for the adjustment of the inventory and accounting records to the inventory on hand shall be provided by means of an inventory adjustment document. The detail data requirements and procedures for preparing and processing the inventory adjustment document shall be as prescribed in appropriate DoD Component implementing documents.

B. Authority for Adjustment. If the cause or probable cause of the discrepancy has not been determined, and the discrepancy does not qualify for causative research, this paragraph shall be cited as authority for relieving the accountable officer of accountability.

C. Statistics. See paragraph 070803.B., above.

070805. Unresolved Inventory Losses - Causative Research Indicates No Personal Responsibility

A. Accountability. See paragraph 070804.A., above.

B. Statistics. The type of inventory losses shall be categorized and accumulated by category to identify trends and/or problem areas in accounting or supply system procedures in accordance with Chapter 7 of DoD 4000.25-2-M.

070806. Unresolved Inventory Losses - Causative Research Indicates Evidence of Personal Responsibility

A. Method of Adjustment. A financial liability investigation shall be used to support adjustment of the inventory and accounting records to the actual inventory on hand and to relieve the accountable officer of accountability.

B. Statistics. See paragraph 070805.B., above.

070807. Criteria for an Investigation. A financial liability investigation shall be initiated on all unresolved inventory discrepancies for each stock number that meets any of the following criteria:

A. Gains and losses of sensitive items (e.g., drugs designated as controlled substances and assigned to one of five schedules by the Drug Enforcement Agency, Department

of Justice, under the Comprehensive Drug Abuse, Prevention, and Control Act of 1970 and any other drugs designated for local control by the Medical Treatment Facility Commander, precious metals, hazardous materiel, small arms, ammunition, explosives) regardless of dollar value.

- B. Gains and losses of classified items, regardless of dollar value.
- C. Gains and losses of pilferable items when the unit price-times the quantity is equal to or greater than \$2,500.00 for each stock number.
- D. Any inventory loss when there is an indication or suspicion of fraud, theft or negligence.
- E. Repetitive losses when the cumulative dollar value of the inventory losses equals or exceeds the projected cost of the financial liability investigation.
- F. Bulk petroleum when the loss exceeds the stated allowance.

070808. Procedures for an Investigation

A. Accountability and Responsibility. For unresolved inventory losses which meet the criteria set forth in paragraphs 070806 and 070807, above, a DD Form 200 is required to relieve accountable or responsible officers from responsibility, to substantiate adjustment of the inventory and accounting records to the inventory on hand, and to identify problem areas or trends for corrective actions. A financial liability investigation should be conducted by a person who is not directly supervised by the accountable or responsible officer. It shall include, as a minimum, the following actions:

1. Review and evaluate existing procedures for their adequacy in protecting property.
2. Determine compliance with prescribed regulations and procedures.
3. Determine who is involved and what responsibilities they have been assigned.
4. Determine whether simple or gross negligence or abuse is evident.
5. Review of causative research conducted.
6. Determine the cause or the probable cause of the inventory loss.
7. Recommend actions to minimize recurrence of the inventory loss.

B. Review the Adequacy of Procedures in Protecting Property

1. Physical Security Review. Determine if storage facilities are adequate to ensure proper safeguarding of all items, especially those items that are sensitive, classified, or subject to pilferage. The review should include an evaluation of compliance with regulatory requirements, procedures to determine degree of susceptibility of items to theft or pilferage, and lessons to be learned from losses that have been experienced.

2. Receipt, Storage, and Shipment Procedures Review. Determine if adequate procedures exist to prevent loss from theft or pilferage during receipt, storage, or shipment. The degree of protection should be commensurate with statutory and regulatory requirements, the degree of susceptibility to theft or pilferage, and experienced losses.

C. Determine Procedural Compliance. Determine if the responsible persons have complied with existing procedures to protect Government property. If they have not complied with the procedures, determine if they failed to comply or were instructed not to comply.

0709 PETROLEUM PRODUCT/LOSSES

070901. Loss Expectancy. Some losses are unavoidable in the handling and storage of volatile products. These losses can be controlled by management actions to limit the rates of loss for such products so that standards are not exceeded. For this reason, Volume II, chapter 9, of DoD 4140.25-M, "Management of Bulk Petroleum Products, Storage and Distribution Facilities." provides authorized loss allowances to accommodate product losses normally expected. Losses are categorized as in-transit, operating, and determinable. These categories are defined in Volume II, chapter 9, of DoD 4140.25-M. However, any trends, such as a pattern of losses within the allowable percentage, shall require further research and investigation.

070902. In-Transit Losses. Losses of product received at DoD activities are allowable only when the actual loss is within the authorized allowance. When a loss exceeds the allowance, a portion of the loss is not allowable, and the entire loss will be reported as prescribed in Volume II, chapter 9, of DoD 4140.25-M. Causative research, as described in paragraph 070803.C, shall be performed if there is any suspicion of negligence or abuse on the part of U.S. Government personnel who contributed to the loss.

070903. Operating Losses. Terminal operating loss allowances for various types of petroleum products are prescribed in Volume II, chapter 9, of DoD 4140.25-M. When the loss exceeds the stated allowance, a portion of the loss is not allowable; and the entire loss must be researched and reported in accordance with the provisions in section 0708.

070904. Determinable Losses. Losses which occur from determinable causes (such as tank overflows, spills, pipeline breaks, fire or unrecoverable tank bottom) can normally be precluded or greatly minimized by effective management. These losses shall be researched and reported in accordance with section 0708 of this volume.

FINANCIAL LIABILITY INVESTIGATION OF PROPERTY LOSS

FINANCIAL LIABILITY INVESTIGATION OF PROPERTY LOSS					
PRIVACY ACT STATEMENT					
AUTHORITY: 10 USC 136; 10 USC 2775; DoD Instruction 7200.10; EO		ROUTINE USES: None.			
PRINCIPAL PURPOSE: To officially report the facts and circumstances supporting the assessment of financial charges for the loss, damage, or destruction of DoD-controlled property. The purpose of soliciting the SSN is for positive identification.		DISCLOSURE: Voluntary; however, refusal to explain the circumstances under which the property was lost, damaged, or destroyed may be considered with other factors in determining if an individual will be held financially liable.			
1. DATE INITIATED (YYMMDD) 910102		2. INQUIRY/INVESTIGATION NUMBER 91020001		3. DATE LOSS DISCOVERED (YYMMDD) 910101	
4. NATIONAL STOCK NO. None		5. ITEM DESCRIPTION 1988 Ford Taurus		6. QUANTITY 1	
		7. UNIT COST \$4,000.00		8. TOTAL COST \$4,000.00	
9. CIRCUMSTANCES UNDER WHICH PROPERTY WAS (X one) (Attach additional pages as necessary) <div style="display: flex; justify-content: space-between; margin-top: 5px;"> <input type="checkbox"/> LOST <input type="checkbox"/> DAMAGED <input checked="" type="checkbox"/> DESTROYED </div> <p>Government vehicle was left unattended in a test firing range on December 31, 1990. See attached details.</p>					
10. ACTIONS TAKEN TO CORRECT CIRCUMSTANCES REPORTED IN BLOCK 9 AND PREVENT FUTURE OCCURRENCES (Attach Additional pages as necessary) Assessment of liability in the amount of the fair market value of the vehicle.					
11. INDIVIDUAL COMPLETING BLOCKS 1 THROUGH 10					
a. ORGANIZATIONAL ADDRESS (Unit Designation Office Symbol, Base, State/Country, Zip Code) Bureau of Naval Weapons WEPS-0112 Washington D.C. 20360		b. TYPED NAME (Last, First, Middle Initial) Smith, John L.		c. DSN NUMBER 999-9999	
		d. SIGNATURE		e. DATE SIGNED 910103	
12. (X one) <input checked="" type="checkbox"/> RESPONSIBLE OFFICER (PROPERTY RECORD ITEMS) <input type="checkbox"/> REVIEWING AUTHORITY (SUPPLY SYSTEM STOCKS)					
a. NEGLIGENCE OR ABUSE EVIDENT/SUSPECTED (X one) <input checked="" type="checkbox"/> (1) Yes <input type="checkbox"/> (2) No		b. COMMENTS/RECOMMENDATIONS			
c. ORGANIZATIONAL ADDRESS (Unit Designation Office Symbol, Base, State/Country, Zip Code) Bureau of Naval Weapons WEPS-0112 Washington D.C. 20360		d. TYPED NAME (Last, First, Middle Initial) Doe, John L.		e. DSN NUMBER 999-9999	
		f. SIGNATURE		g. DATE SIGNED 910104	
13. APPOINTING AUTHORITY					
a. RECOMMENDATION (X one) <input checked="" type="checkbox"/> (1) Approve <input type="checkbox"/> (2) Disapprove		b. COMMENTS/RATIONALE		c. FINANCIAL LIABILITY OFFICER APPOINTED (X one) <input checked="" type="checkbox"/> (1) Yes <input type="checkbox"/> (2) No	
d. ORGANIZATIONAL ADDRESS (Unit Designation Office Symbol, Base, State/Country, Zip Code) Bureau of Naval Weapons WEPS-0112 Washington D.C. 20360		e. TYPED NAME (Last, First, Middle Initial) Smith, Jane R.		f. DSN NUMBER 999-9999	
		g. SIGNATURE		h. DATE SIGNED 910113	
14. APPROVING AUTHORITY					
a. RECOMMENDATION (X one) <input checked="" type="checkbox"/> (1) Approve <input type="checkbox"/> (2) Disapprove		b. COMMENTS/RATIONALE		c. LEGAL REVIEW COMPLETED IF REQUIRED (X one) <input type="checkbox"/> (1) Yes <input checked="" type="checkbox"/> (2) No	
d. ORGANIZATIONAL ADDRESS (Unit Designation Office Symbol, Base, State/Country, Zip Code) Bureau of Naval Weapons WEPS-0112 Washington D.C. 20360		e. TYPED NAME (Last, First, Middle Initial) Doe, Jane R.		f. DSN NUMBER 999-9999	
		g. SIGNATURE		h. DATE SIGNED 910114	

DD FORM 200, FEB 91 (EG)

PREVIOUS EDITIONS ARE OBSOLETE.

Designed using Perform Pro, WHS/DIOR, Jun 94

Table 7-1

FINANCIAL LIABILITY INVESTIGATION OF PROPERTY LOSS (CONT)[illegible]

DD FORM 200, FEB 91 (BACK)

Table 7-1 (CONT)

DEFINITIONS

1. Abuse. Willful misconduct or deliberate unauthorized use.
2. Accountability. The obligation imposed by law, lawful order, or regulation on an officer or other person for keeping an accurate record of property documents, or funds. The person having this obligation may or may not have actual possession of the property, documents, or funds.
3. Accountable Officer. An individual appointed by proper authority who maintains item and/or financial records in connection with Government property, irrespective of whether the property is in his or her possession for use or storage, or is in the possession of others to whom it has been officially entrusted for use or for care and safekeeping.
4. Acquisition Cost. Consists of the amount paid for the property, less both trade and cash discounts, plus the transportation costs.
5. Appointing Authority. An individual designated in writing by the approving authority. The approving authority may act as the appointing authority. The appointing authority appoints financial liability officers, if required; approves or disapproves the recommendations of the responsible officer, reviewing authority, or financial liability officer; and recommends actions to the approving authority. The appointing authority is normally senior to the responsible officer, reviewing authority, accountable officer, and financial liability officer.
6. Approving Authority. The approving authority makes determinations to either relieve involved individuals from responsibility and/or accountability or approve assessment of financial liability. The approving authority may act as the appointing authority or designate an appointing authority in writing. DoD Component regulations shall designate who may serve as the appointing authority. The approving authority is normally senior to the appointing authority.
7. Collective Liability. Where more than one individual may be liable for a debt, both collectively or individually.
8. Commander. An individual vested with command authority in a DoD Component.
9. Controlled Inventors Items. Those items designated as having characteristics which require that they be identified, accounted for, secured, segregated, or handled in a special manner to ensure their safekeeping and integrity. Controlled inventory items in descending order of the degree of control normally exercised are:
 - a. Classified Items. Material which requires protection in the interest of national security.

b. Sensitive Items. Material which requires a high degree of protection and control due to statutory requirement or regulations, such as narcotics and drug abuse items; precious metals; items which are of a high value, highly technical, or a hazardous nature; and small arms, ammunition, explosives, and demolition material.

c. Pilferable Items. Materials having a ready resale value or application to personal possession and which is, therefore, especially subject to theft.

10. Culpability. Determination of fault.

11. Deliberate Unauthorized Use. Willful or intentional use without right, permit, or authority.

12. Discrepancies. The loss, gain, damage, or destruction of Government property.

13. Financial Liability. The statutory obligation of an individual to reimburse the Government for lost, damaged, or destroyed Government property as a result of negligence or abuse.

14. Financial Liability Officer. An individual who is appointed in writing by the appointing authority to conduct an investigation to determine responsibility for loss, damage, or destruction of Government property. Individuals so appointed shall not be the accountable or responsible officer or have any direct interest in the property being investigated. The individual shall be a commissioned officer; warrant officer; enlisted member in grades E-7, E-8, or E-9; or a civilian employee GS-07, or above. However, the financial liability officer is normally senior to the person(s) directly involved with the discrepancy. The appointing authority may act as the financial liability officer.

15. Government Property. See "property" (definition 25).

16. Gross Negligence. An extreme departure from the course of action to be expected of a reasonably prudent person, all circumstances being considered. The act is characterized by a reckless, deliberate, or wanton disregard of foreseeable consequences.

17. Industrial Property. As distinguished from military property, means any contractor-acquired or Government property, including materials, special tooling, and industrial facilities, furnished or acquired in the performance of a contract or subcontract.

18. Investigation. Means of determining the facts related to loss, damage, or destruction of Government property; determining the present condition of such property; receiving recommendations as to disposition, retention, and further accountability for such property; or determining the responsibility for loss, gain, damage, or destruction of Government property.

19. Item. A generic term meaning any article of material which is produced, stocked, stored, issued, or used.
20. Liability. The state of being responsible or answerable for the loss, gain, damage, or destruction of Government property.
21. Negligence. The failure to act as a reasonable prudent person would have acted under similar circumstances. An act or omission that a reasonably prudent person would not have committed or omitted under similar circumstances and which is the proximate cause of the loss of, damage to, or destruction of Government property. Failure to comply with existing laws, regulations, or procedures may be considered as evidence of negligence.
22. Personal Arms or Equipment. Equipment or clothing issued to individuals for their sole use and care, such as weapons, personal retention items mobility kit bags, flight jackets, parkas, and similar items. In defining personal arms or equipment, determine how the property is used by the member, and whether it is turned in at the end of the work shift. This is especially true when dealing with portable radios and hand tools. A portable radio, for example, is personal equipment when an individual uses it constantly, carries it wherever he or she goes, and has it for an indefinite period of time. However, it is not personal equipment when the individual has it for a specified time while on duty, and turns it in to be used by others at the end of a shift.
23. Personal Property. Property of any kind or any interest therein, except real property, records of the Federal Government, and Naval vessels of the following categories: aircraft carriers, battleships, cruisers, destroyers, and submarines.
24. Probable Cause. Reasonable grounds for belief.
25. Property. Anything that may be owned. As used in the military establishment, this term is usually confined to "tangible property," including real estate and material. For special purposes and as used in certain statutes, this term may exclude such items as the public domain, certain lands, certain categories of naval vessels and records of the Federal Government.
26. Property Record. General term referring to any record of property. It is inclusive not only of stock record accounts, but also of organization and installation property books, clothing and equipment records, hand receipt records, or any system of files for property records. Also called, "property account."
27. Proximate Cause. The cause which, in a natural and continuous sequence of events unbroken by a new cause, produced the loss or damage. Without this cause the loss, gain, or damage would not have occurred. It is further defined as the primary moving cause, or the predominate cause, from which the loss, gain, or damage followed as a natural, direct, and immediate consequence.

28. Record. All forms of information (e.g., narrative, graphic data, and computer memory) registered in either temporary or permanent form so that it can be retrieved, reproduced, or preserved.
29. Research. An investigation of potential or actual discrepancies between physical count and recorded balances. The purpose of the research is to determine the correct balance and determine the cause of discrepancies. There are three types of research.
- a. Postcount Validation. A comparison of physical count with potential recorded balances or another count, with consideration of transactions that have occurred recently. The purpose of postcount validation is to determine the validity of the count. Postcount validation research ends when the accuracy of the count has been verified or when any necessary recounts have been taken.
 - b. Preadjustment Research. A review of potential discrepancies, which involves the consideration of recent transactions and verification of catalog data. The purpose of preadjustment research is to determine the correct balance. Preadjustment research ends when the balance has been verified or the adjustment quantity determined.
 - c. Causative Research. An investigation of discrepancies (i.e., gains and losses) consisting of (as a minimum) a complete review of all transactions to include supporting documentation: catalog change actions, shipment discrepancies, and unposted or rejected documentation occurring since the last completed inventory; the last location reconciliation which included quantity; or back one year whichever is sooner. The purpose of causative research is to identify, analyze, and evaluate the cause of inventory discrepancies with the aim of eliminating repetitive errors. Causative research ends when the cause of the discrepancy has been discovered or when, after review of the transactions, no conclusive findings are possible.
30. Responsibility. An obligation for the proper custody, care, and safekeeping of property or funds entrusted to the possession or supervision of an individual.
31. Responsible Officer. An individual appointed by proper authority to exercise custody, care, and safekeeping over property entrusted to his or her possession or under his or her supervision.
32. Responsible Person. An individual issued Government property on the basis of a property receipt.
33. Reviewing Authority. An individual designated in writing by the approving authority to review and analyze the results of supply system stock research.
34. Simple Negligence. see "negligence" (definition 21).

35. Standard Price. The unit price of an item, as it is recorded in the Standard Catalog for use in financial and accountable records of the holding Service of Agency. (An item not included in the appropriate Service or agency pricing catalog shall be priced at original cost, if available, or if not known, at fair market value, as stated in paragraph 070208.A.2, of this chapter.)

36. Stock Record. A perpetual inventory form of record which shows by nomenclature, the quantities received, issued, and the balance on hand. The stock record shall show by item the receipt, issue, and transfer of accountability of property; the balances on hand; and such other identifying or stock control data as required.

37. Supply System Material. Supply system material refers to those inventories, wholesale and below wholesale, where a stock record account is required to be maintained.

38. Willful Misconduct. Intentional damage, destruction, misappropriation, or loss of Government property.

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CHAPTER 8

FOREIGN NATIONAL EMPLOYEES SEPARATION PAY ACCOUNT, DEFENSE0801 OVERVIEW

080101. Purpose. This chapter provides policy and procedures applicable to the Foreign National Employees Separation Pay Account, Defense.

080102. Background

A. The National Defense Authorization Act for Fiscal Years 1992 and 1993 authorized a trust fund account to accumulate obligations for separation payments to foreign national employees of the Department of Defense. Title 10, U.S.C., section 1581 provides for establishment and operation of the account.

B. Except as provided herein, all separation payments for DoD foreign national employees shall be made from this account. All amounts that were obligated for such separation payments, but not expended before enactment, shall be transferred to this account. Similar amounts obligated after enactment shall also be transferred into this account on a quarterly basis. Amounts in the account shall remain available until expended.

C. This guidance applies to all Department of Defense appropriations. This guidance does not apply to activities under the Defense Business Operations Fund. Business Operations Fund activities shall continue to make necessary foreign national employee severance payments under established Business Operations Fund procedures. This guidance also does not apply to the Foreign Military Sales Trust Fund. FMS Trust Fund activities will continue to accrue and disburse separation pay to their foreign national employees from the FMS Trust Fund.

0802 POLICY AND PROCEDURES

080201. Amounts to be obligated for foreign national employees separation pay shall be determined and calculated at the installation level in accordance with applicable host country agreements. These amounts shall be obligated in the full amount of the liability that accrues during the fiscal year, without regard to whether the amount currently is payable. Disbursement of these amounts shall be made from the Foreign National Employees Separation Pay Account, Defense.

080202. Foreign national employee separation pay accruals (obligations) shall be transferred quarterly to the Foreign National Employees Separation Pay Account, Defense. Such amounts are to be transferred via an SF 1081, "Voucher and Schedule of Withdrawals and Credits."

080203. The Director, Defense Finance and Accounting Service, shall administer the Account as well as perform related accounting functions.

080204. Administrative subdivisions shall be established within the Account for each DoD Component that budgets for foreign national employee separation pay. Deposits into and payments from the Account shall be recorded in the applicable DoD Component's subdivision.

080205. Except for those organizations operating within the Defense Business Operations Fund, all separation payments for foreign national employees from DoD appropriations shall be disbursed from the Foreign National Employees Separation Pay Account. Requests for authorization to disburse from this Account shall be forwarded to the servicing DFAS Center.

080206. The appropriation symbol for the Foreign National Employees Separation Pay Account, Defense is 97X8165. The applicable receipt account is 97X8165.1.

080207. Transfers. Transfers into the Account shall be made as follows:

A. All amounts accrued (obligated) for foreign national employee separation pay liability during each fiscal year by any DoD Component shall be transferred into the Account on a quarterly basis. The SF 1081 will be used to effect such transfers.

B. When required payments from a DoD Component's subdivision of the Account exceed the balance in that Component's subdivision, additional amounts must be obligated, from funds otherwise available to a DoD Component, and subsequently transferred into the Account under authority provided in the National Defense Authorization Act for Fiscal Years 1992 and 1993. Such transfers shall equal the amount of the payment in excess of the balance of the Component's subdivision of the account, plus any amounts that are accrued but not currently payable.

C. Each DoD Component, in conjunction with the Director, Defense Finance and Accounting Service, shall perform at least an annual review of the amounts in its respective Account subdivision and compare such amounts to its foreign national separation pay liabilities. The purpose of this review is to ensure that sufficient funds have been obligated for future payments. If required, additional amounts must be obligated, from funds otherwise available to a DoD Component, and subsequently transferred into the Account under authority provided in the National Defense Authorization Act for Fiscal Years 1992 and 1993. Both parties shall certify to the accuracy of the information. This annual review shall occur each April. The DFAS and the DoD Components also shall maintain an audit trail of accountable records and assure the establishment of an effective internal control system for the entire account.

080208. Deobligations. Each DoD Component shall notify its servicing DFAS Center of all deobligation transactions, adjustments and corrections, in a timely and accurate manner. The respective Center will record adjustments and corrections in the accounting records.

080209. Availability of Deobligated Amounts. Amounts deobligated by the DoD Components shall remain in the Account for a period of two years from the date of deobligation. During that time, the deobligated amounts are to be available for recording, adjusting, and liquidating amounts properly chargeable to the liability of the respective DoD Component. Any such deobligated amount remaining in the Account after the two year period shall be canceled.

0803 SUBSEQUENT DISBURSEMENTS

080301. Validation of Funds Availability. When approved by the Defense Finance and Accounting Service, disbursements for foreign national employee separation payments may continue to be made by local disbursing offices, including the Department of State, using DoD cross-disbursement procedures as applicable. Each DoD Component and non-DoD office, e.g., State Department, must coordinate its disbursement/cross-disbursement actions with the servicing DFAS Center to validate the availability of funds prior to disbursement. A positive balance in the Account is necessary prior to payment; therefore, both DoD and non-DoD activities will verify from the servicing DFAS Center that sufficient funds are available prior to submitting vouchers to servicing disbursing offices for employee payments.

080302. Cross-Disbursements. When cross-disbursement procedures are used, the Defense Finance and Accounting Service shall be advised prior to each actual disbursement.

0804 RESPONSIBILITIES

080401. DFAS-Indianapolis Center. The DFAS Indianapolis Center:

A. Oversees the recording and reporting of all required accounting information. Performs the consolidation of the feeder reports for submission to the DFAS ATTN: DFAS-HQ/G. Performs the required Treasury cash reporting and reconciliation.

B. Maintains a general ledger account structure with necessary subsidiary ledgers to support the various accounts. The detail subsidiary ledgers may remain at the DFAS Center or DoD Component field level activities. However, subsidiary ledgers and an audit trail must be accurately maintained.

C. Processes all accounting transactions through the accounting network in a timely and accurate manner.

D. Provides accurate and timely accounting service to customers, e.g., DoD Components, upon request. Coordinates the accounting process with other DFAS Centers.

E. Based on available information, performs a positive funds control function and alerts the DoD Component when necessary to assure a timely transfer.

F. Provides a point of contact with telephone/fax numbers to the DoD Components.

080402. DoD Components. The DoD Components:

A. Determine the obligation amount and notify the servicing DFAS Center in a timely manner to accomplish the quarterly transfer. This information will be the basis for future SF 1081 processing and for updating the accounting records.

B. Process the SF 1081 and return a copy to the servicing DFAS Center in a timely manner.

C. Manage all pertinent agreements regarding foreign national employees. A copy of all agreements and/or arrangements, including changes and amendments shall be forwarded to the servicing DFAS Center.

D. Notify the servicing DFAS Center of all changes, adjustments, or cancellations of previously reported information at least monthly.

E. Provide the servicing DFAS Center with a Point of Contact, with telephone/fax numbers, and the current mailing address.

CHAPTER 9

INTERNATIONAL AGREEMENTS0901 OVERVIEW

090101. Purpose. This chapter establishes the financial procedures that shall be followed when DoD Components initiate, develop, and request formal review of international agreements and any annexes, appendices, amendments, or modifications thereto.

0902 GENERAL

090201. DoD Directive 5530.3, "International Agreements," provides the DoD policies for the approval of international agreements and establishes various categories of international agreements. The term "international agreement" includes any agreement with one or more foreign governments (including their agencies, instrumentalities, or political subdivisions) or with an international organization. It includes any document identified as an international agreement, memorandum of understanding, memorandum of agreement (MOA), memorandum of arrangements, exchange of notes, exchange of letters, technical arrangement, etc. It does not include Foreign Military Sales (FMS) transactions and contracts entered into under the provisions of the Federal Acquisition Regulation or agreements financed with security assistance funds. The latter agreements are implemented under provisions identified in Volume 15 of this Regulation.

090202. Pending a revision to DoD Directive 5503.3, the DEPSECDEF signed a memorandum, on September 14, 1994, implementing streamlined procedures for the development of International Cooperative Research and Development Agreements. In that memorandum, the DEPSECDEF designated the Principal Deputy Assistant Secretary of Defense for Dual Use Technology Policy and International Programs (PDASD(DUTP&IP)) as the DoD manager for the development of International Research and Development Agreements. Accordingly, the PDASD(DUTP&IP) issued procedures for streamlining the development and coordination of international agreements. Those procedures include instructions for the preparation of a Summary Statement of Intent (SSOI). The SSOI provides to international agreement reviewers basic information pertaining to proposed agreements. Instructions for the preparation of a SSOI are contained in Appendix A at the end of this chapter.

090203. There are various types of international agreements with different financial implications. Regardless, such international agreements must be consistent with established DoD issuances, unless approval to deviate from such guidance is obtained from the proponent of that applicable guidance.

090204. Each international agreement package submitted for coordination must contain information including legal authority, fiscal information, and either an overview of the

proposed agreement, a Summary Statement of Intent (SSOI), or the proposed agreement. The fiscal information should identify all financial implications of the agreement and provide all information required for a complete understanding and analysis of those implications. The legal information should identify the statutory authority for any obligation or expenditure of U.S. appropriated or nonappropriated funds involved in the agreement, as well as the legal basis for any use of U.S. Government property by or on behalf of a foreign government or international organization contemplated by the agreement.

090205. DoD Directive 5530.3 stipulates that no international agreement shall be negotiated or entered into without the concurrence of the Office of the Under Secretary of Defense (Comptroller). In the case of a proposed international agreement within the approval authority of a DoD Component outside the Office of the Secretary of Defense, concurrence shall be obtained from the DoD Component senior financial manager. A checklist has been developed and shall be used to ensure that all financial and pricing requirements have been taken into consideration. The checklist is illustrated at the end of this chapter in Appendix B.

0903 LEGAL CONSIDERATIONS

090301. General. Legal authority information is critical to the preparation of an agreement and is the basis for determining the legal authority for entering into the agreement and subsequent financial requirements. The legal information is used by financial management officials to review applicable international agreements and determine the existence of any special pricing or funding requirements. The legal information normally provides the following information:

A. Special Legal Pricing Requirements. The legislative authority to enter into an agreement also may mandate special pricing requirements on the United States. Thus, the legal authority information should identify any peculiar pricing that must be reflected in the agreement. In the absence of specific legal authority to price on other than a full cost basis, DoD services and materials shall be priced on a full cost basis.

B. Legal Requirement for the Disposition of Monies Collected by the Department of Defense. This is especially important because amounts collected as reimbursements for DoD material or services or new procurements must be deposited into the miscellaneous receipts of the U.S. Treasury, unless there is specific legal authority to credit collections to a DoD appropriation or fund. The legal citation for the disposition of monies clearly should be stated. Special care must be taken with respect to the cooperative development or production agreements described in paragraphs 090510.B. and 090510.C. Options available for deposit of collections include deposit to an appropriation account, a commercial bank account approved by the Treasury Department, or a U.S. Treasury deposit account.

C. Legal Requirement for Recognition of Obligational Authority in DoD Appropriations. Obligational authority can be created only to the extent that cash is collected and

deposited into the U.S. Treasury, unless there is legal authority to create obligational authority on a dependable undertaking (contract authority) basis.

D. Special Prohibitions or Requirements on the Use of Appropriated Funds.

The legal information section should identify any special prohibitions or requirements on the use of appropriated funds in support of the agreement. These special prohibitions are in addition to the standing prohibitions discussed in paragraph. An example of a special requirement is when FMS credit funds are to be used to finance co-production or licensed production in a foreign country. The approval of such use requires the Secretary of State first to advise the Congress. (See Section 42(b) of the Arms Export Control Act (AECA).)

0904 FISCAL CONSIDERATIONS

The fiscal information section documents the various financial considerations involved in implementing an international agreement. Specific considerations to be included in the fiscal information section are as follows:

090401. Financing Sources for U.S. Costs

A. The fiscal information section shall include a schedule of proposed financing sources to be used by the sponsoring DoD Component to implement the agreement. Financing sources may be current appropriations or funds, provision for inclusion in the Future Years Defense Program (FYDP), or a statement of an intent to include in future program and/or budget requests or FYDPs. This information may be either in narrative or schedule form. A schedule form is preferred and is illustrated in Table 9-1. When current appropriations or funds are to be used as a financing source, the fiscal information section should identify the specific appropriation(s) or fund(s), the FYDP Program Element, the amount(s) available therein, and the respective amounts to be used. If the source of financing in current appropriations is in two accounts, the applicable sources of financing should be supported by details showing the specific financing appropriation account symbols.

B. If the proposed international agreement is, in fact, a firm order for goods or services, a formal certification of fund availability shall be included. Applicable funds shall be committed in accordance with Volume 3 of this Regulation.

TABLE 9-1 EXAMPLE INTERNATIONAL AGREEMENT FINANCING SCHEDULE
 (\$ in Millions)

Financing Sources	FY 1996	FY 1997	FY 1998	Totals
U.S./PE 0603456	1.5	1.0	0.0	2.5
U.S./PE 0603567	0.0	0.5	1.0	1.5
France	1.5	1.5	1.0	4.0
Germany	1.5	1.5	1.0	4.0
Totals	4.5	4.5	3.0	12.0

090402. Provisions for the Disposition of Funds Collected. The fiscal information section should describe the planned disposition of any funds collected from the foreign country or international organization. The four possible alternatives for disposition of amounts collected are as follows:

A. Reimbursement to Financing DoD Appropriations or Funds. If reimbursements are to be returned to the financing DoD appropriation accounts, the fiscal memorandum or SSOI should identify the accounts to be reimbursed. This identification need not specify the fiscal year of the appropriations. Normal reimbursable accounting procedures shall apply.

B. Deposit in the U.S. Treasury as Miscellaneous Receipts. Without statutory authority to reimburse DoD appropriations or funds or to make other disposition, collections shall be deposited into the U.S. Treasury as miscellaneous receipts. The miscellaneous receipt account to be credited with such collections shall be specified by the depositor. DoD accounting systems should accumulate costs incurred on behalf of the other participant(s), establish an accounts receivable identified to the applicable miscellaneous receipts account and bill such amounts.

C. Deposit in a U.S. Treasury Deposit Account. If a Treasury deposit account has been established for the agreement, the fiscal memorandum shall identify the appropriate U.S. Treasury account symbol.

D. Deposit in a Commercial Bank Account.

1. If execution of a proposed agreement contemplates use of a commercial bank account for a foreign country's funds, such a provision shall be included in the fiscal memorandum or SSOI with a description of intended bank account operation. Preference shall be given to commercial banks which are designated depositories of the U.S. Treasury Department. When approved, such accounts may be used for the deposit of monies from participating nations or international organizations and for payments made in accordance with direction from an authorized official. To determine whether a proposed institution is a Treasury

designated depository, contact the International Funds Branch, Department of Treasury, 3700 East West Highway, Room 6005, Hyattsville, Maryland 20782. The telephone number is (202) 874-8915.

2. For contracts administered by the Department of Defense, two funding accounts must be cited: the DoD appropriation account for the U.S. share and the commercial bank account for the share of the other participant(s). The fund citation on the contract shall indicate the commercial bank account rather than the normal accounting classification code. In this case, only the Department can draw down on the commercial bank account.

090403. Use of Amounts Credited. Foreign contributions collected by a DoD Component under terms of a cooperative project on a cost sharing basis from a foreign country or North Atlantic Treaty Organization (NATO) may be credited to a financing DoD appropriation or fund. Such contributions, however, are available only for the payment of the share of project expenses allocated to the foreign country or NATO making the contribution. The fiscal memorandum or SSOI should certify that such collections are to be used for purposes as prescribed herein. Payments for which such amounts are available include the following:

A. Payments to contractors and other suppliers (including the Department of Defense) and other participants acting as suppliers) for necessary articles and services.

B. Payments for any damages and costs resulting from the performance or cancellation of any contract or other obligation.

C. Payments or reimbursements of other program expenses, including program office overhead and administrative costs.

D. Refunds to other participants.

090404. Availability of Financing Sources. There are two general prohibitions on the use of appropriated funds for international agreements. In addition, the legal section may identify other prohibitions. It is implicit in the identification of the financing sources set forth in paragraph 090401, that funds are available. It is desirable, however, to include in the fiscal information section a certification that all legal and policy prohibitions on the use of funds have been complied with. The general prohibitions are as follows:

A. No funds designated by the Congress for NATO or major non-NATO cooperative research and development under 10 U.S.C. 2350a may be used to procure equipment or services from any foreign government, foreign research organization, or other foreign entity (including NATO participants) to the agreement.

B. U.S. Government military assistance funds (i.e. Military Assistance Program (MAP), FMS loans, or FMS credits) are not available to finance a foreign participant's share of the cost of a cooperative project authorized by section 27 of the Arms Export Control Act or a cooperative development project with a major non-NATO ally under 10 U.S.C. 2350a.

090405. Foreign Currency, Services, and Materials Provided. A contribution to an international agreement may be in the form of currency, material, or services. In the event that a foreign country or international organization is to provide services or material as part of its equitable share, a price analysis must be made to ensure the valuation assigned to such services and materials is fair and reasonable. The fiscal information section shall summarize the results of such an analysis. The price analysis shall be based on prior cost experience for the item or service to be provided, a comparison with DoD cost for the item or services for similar services; and shall consider all applicable circumstances in the price analysis. When a foreign contribution is in the form of foreign currency or the awarding of a contract in a foreign country, the foreign currency contribution generally shall be valued at the exchange rate current at the time that the agreement is prepared. There shall be no subsequent modification of the valuation because of changes in the currency exchange rate. Exceptions to this general rule require advance consultation with the Treasury Department working through the OUSD(C). The fiscal memorandum or SSOI shall display the value of the currency in terms of U.S. dollars. Also, the use of foreign currency requires approval by the Department of the Treasury. Such approval should be documented in the fiscal information section. Chapter 12, Volume 5, of this Regulation, provides guidance for the use of foreign currency.

090406. Valuation of DoD Services and Material. The value of all non-financial (articles, materiel, background data/information, software, or services) contributions to an agreement by the Department of Defense is to be determined and considered for the evaluation of equitableness of the proposed project. The fiscal memorandum or financial section of the SSOI shall describe the non-financial contributions, indicate their value, and state the method used in determining the valuation. The alternatives for determining the value of non-financial contributions are as follows:

A. Full Costs. It is important not to confuse the act of accumulating full costs with the necessity to bill cost. Chapter 1 of Volume 11A of this Regulation provides guidance on the specific cost elements and identification methods for pricing sales to private parties. These same methods shall be followed in valuing non-financial contributions to an international agreement.

B. Other Than Full Costs. An agreement that requires the identification or use of less than full cost is normally authorized only when a reciprocal pricing agreement has been entered into by the Department and the other party (parties) to the agreement. The agreement should demonstrate that costs to be excluded mutually have not been considered by the other party in a determination of equitableness.

C. Cost Recoupment Waivers. In the event that less than full cost is being identified on the basis of a cost waiver, the date of the waiver and its approving authority must be provided in the SSOI. Copies of such waivers shall be made available on request.

090407. Reasonable and Necessary Expense. Any obligation of DoD appropriations under an international agreement must be supported by a showing that it is a reasonable and necessary expense required for the accomplishment of DoD missions, unless the use of DoD funds for other than a DoD mission specifically is authorized by statute.

0905 PROPOSED AGREEMENT

090501. An agreement must contain language that implements the requirements established by U.S. law or regulation. This section discusses the financial policies that must be followed and provides appropriate cross references to other parts of this Regulation that provide more specific guidance.

090502. Fund Availability Qualification

A. As a general rule, there is no intent to create a DoD financial obligation upon signature of an agreement. The major exception to this rule occurs when an agreement is entered into in lieu of a contract awarded under the provisions of the Federal Acquisition Regulation. However, if the agreement does not contain an appropriate qualification statement, it may be deemed an "obligating document." In this event, the dollar value of the DoD contribution shall be recorded immediately as an obligation of currently available appropriation or fund accounts. If the recording of such an obligation results in exceeding the fund availability in an appropriation or fund account or in an administrative subdivision thereof, an apparent violation of the Antideficiency Act (31 U.S.C. 1341 or 1517(a)) shall have occurred. Guidance on the investigation and reporting of such violations is contained in Volume 14 of this Regulation. Normally, the signatory of a contract or agreement is named as the individual responsible for such a violation. The major exception would be when finance and accounting officials improperly have certified the availability of funds.

B. Examples of typical fund availability qualification clauses inserted in an international agreement follow:

1. "All undertakings of the U.S. Government under this MOA and any annexes, appendices, amendments, or modifications thereto, are expressly subject to the availability of U.S. funds for such purpose."

2. "The obligations of each participant under this MOA are subject to the availability of funds for those purposes."

090503. Reconciliation of Agreement Dollar Value to Financing Sources. An international agreement must set forth the dollar value of the agreement and portions of the dollar value that must be borne by each participant. This cost sharing may be in the form of monies, services, or material. A preliminary requirement is to ensure that any obligations that the Department may be required to incur in implementation of the agreement have been identified in the fiscal information section.

090504. Adherence to Prescribed Pricing Rules.

A. In the event that an international agreement provides for DoD services or material to be rendered, there must be assurance that proper pricing procedures have been followed. Paragraphs 090405 and 090406 discuss special requirements that may be applicable to certain agreements. The text of an agreement must be reviewed carefully to ensure compliance with these paragraphs. An area of special pricing attention is charges for existing DoD technical data and computer software, or such data developed outside the agreement.

B. When the Department provides pre-existing technical data and computer software or such data developed outside the scope of an agreement, it normally is referred to as background data. Generally, when Department developed background data is a non-financial contribution, its value for determining equitability is its full (total) cost of development, adjusted for any special modifications, shipping, installation, etc.

C. Background data may be provided for use in furtherance of the purpose of an international agreement as long as it is used solely in connection with the purpose of the agreement. However, an agreement must specify that if the background information is used for any other purpose, approval of the originating participant must be obtained. The following specifics apply:

1. If the data are to be used for cooperative production purposes, the Department must receive appropriate financial credit as part of the DoD share of project cost, unless a cost recoupment waiver has been approved. Any provision for waiver should be identified in the fiscal information section.

2. If the data is to be used for development and production purposes, a technology transfer fee may be applicable for the development phase. This fee may be offset by a nonrecurring cost recoupment charge when production occurs.

3. All background information exchanged shall be used only for the purposes of the agreement, and is not to be transferred to any third party without the approval of the originating participant.

090505. Determination of Program Equitableness.

A. DoD policy requires all international agreements to be equitable to the United States. The Summary Statement of Intent (SSOI) or accompanying documentation to a proposed international agreement must clearly explain why the agreement is considered equitable to the United States. Prior to approval of all proposed international agreements, a determination of agreement equitability must be made by the approving DoD officials. It is critical that sufficient detail and information be provided to clearly demonstrate to those DoD officials that the proposed international agreement is equitable to the United States.

B. Every proposed international agreement that requires the United States to provide more than an equal share of the resources, or results in the United States receiving less than an equal share of the benefits, must be explicitly explained and justified in the SSOI or supporting documentation accompanying the proposed agreement. For these purposes, an equal share means a contribution or benefit of exactly the same value as the shares of all other participating nations. Equal share of the resource requirements contributed to an international agreement includes nonfinancial contributions (i.e., background information, manpower, facilities, equipment, hardware, software, etc.), as well as funds. Nonfinancial contributions shall be valued at the DoD's full cost. Section 090406 provides information on the valuation of DoD services and material.

C. Calculation of Expected U.S. Funding Share. In support of an equitability determination by DoD approving officials, the expected U.S. funding share should be calculated and presented in the SSOI or supporting documentation using one of the methods below:

1. Number of Participants Method. This is the preferred method of calculating the expected U.S. funding share for cooperative feasibility studies, research and development (R&D) efforts, and test and evaluation (T&E) programs and for agreements that establish management or oversight program offices. It is the method that should be employed when estimated unit production quantities are not known. Under the number of participants method, the expected U.S. funding share is determined by dividing the agreement costs by the number of participating nations. A favorable U.S. funding share is where all participating nations equally share the total cost and the benefits. Equal funding of an international agreement by all participating nations, when the benefits are shared equally, does not require an equitability justification. An example of this method is provided in Table 9-2.

2. Estimated Unit Production Method. This is the preferred method of calculating the U.S. funding share for an agreement that cooperatively establishes a program for the production of defense articles or weapon systems. It is used when specific unit production quantities are known or can be estimated. Under the unit production method, the U.S. funding share is considered to be equitable when the DoD funding is proportionately equal to the share of the program production to be received by the United States. An example of this method is provided in Table 9-3. An equitability statement is required in the SSOI or accompanying documentation, and it must clearly present the calculation showing production estimates in relation to the total cost of the international agreement or production program.

3. Other Methods of Calculation. There may be situations when neither of the above two methods apply, and another calculation is possible. For example, an agreement under the auspices of NATO, between the United States and other NATO nations, may require the United States to contribute an amount equal to the usual percentage of U.S. contributions to NATO. An equitability statement is required in the SSOI or accompanying documentation. The calculation and justification for use of that calculation must be clearly presented.

D. U.S. Funding Share Determined by Negotiation. Occasionally, contributions to an agreement, by participating nations, may be determined by negotiation and are not based on one of the above methods. For example, an agreement may call for participating nations to unequally share the benefits or rights to the benefits, and share the cost of the agreement in the same proportions as they share the benefits, or an agreement may require equal sharing of the benefits, but require the United States to contribute more than other participating nations. In such agreements, an equitability statement is required in the SSOI or accompanying documentation and must provide a compelling explanation that justifies the proposed sharing of costs and benefits. Detail and very explicit information must be provided. Without a compelling justification, the agreement will not be approved. Negotiation that results in the United States paying more than an equal share for serving as the contracting nation, serving as the program manager, using a U.S. prime contractor, or receiving other similar privileges do not make an agreement equitable and, generally, will not be approved.

**CALCULATION OF EXPECTED U.S. FUNDING SHARE USING THE
NUMBER OF PARTICIPANTS METHOD
(Dollars in Millions)**

Step 1: Determine the total program cost to the U.S. and other participants.

U.S. Share	\$150
Other Participants	200
Total Cost	\$350

Step 2: Determine the percentage of the U.S. share of the total costs under the agreement.

U.S. Share	\$150 = 43% share
Total Cost	350

Step 3: Determine the total number of participants and calculate the U.S. share on a percentage basis.

Total Participants	3
U.S.	1 = 33 1/3% U.S. as a percentage of Participants

Step 4: Compare the results of step two to step three. If the result of step two is equal to or less than the result of step three, the U.S. appears to be paying a favorable expected funding share.

Step 5: If the result of step two is greater than the result of step three, the U.S. appears to be paying more than its mathematically expected funding share. This situation should be specifically explained and justified in the SSOI or other accompanying justification.

TABLE 9-2

**CALCULATION OF EXPECTED U.S. FUNDING SHARE USING THE
ESTIMATED UNIT PRODUCTION METHOD
(Dollars in Millions)**

Step 1: Determine the total program cost to the U.S. and other participants.

U.S. Share	\$150
Other Participants	<u>200</u>
Total Cost	\$350

Step 2: Determine the percentage of the U.S. share of the total costs under the agreement.

U.S. Share	\$150
Total Cost	350 = 43% share

Step 3: Determine the total number of production units to be produced under the agreement.

U.S. Units	20,000
Other Participants	<u>40,000</u>
Total Production	60,000

Step 4: Determine the percentage of the U.S. share of the total number of units to be produced under the agreement.

U.S. Units	20,000
Total Units	60,000 = 33% share

Step 5: Compare the results of step two to step four. If the result of step two is equal to or less than that of step four, the U.S. appears to be paying a favorable funding share.

Step 6: If the result of step two is greater than the result of step four, the U.S. appears to be paying more than its mathematically expected funding share. This situation should be specifically explained in the narrative determination of program equitableness.

TABLE 9-3

090506. Sales and Transfers of Technical Data Developed Under an Agreement.

An agreement should provide that, in the event technical data developed under the agreement is sold or transferred to third parties, a charge may be made to recoup a pro-rata share of each participant's investment. The agreement also must provide that background information and data developed outside the program not be retransferred without the prior approval of the owner of the information or data, and contain provisions for any applicable charges. For third party sales and transfers, or the addition of new participants, any recoupment charge for the information or data developed under the program must be shared on the basis of the participants' financial contribution to the development of the item or technology. The amount of the charge and the procedures for assessing and distributing it shall be determined mutually by the participants prior to the approval of any such third party sale consistent with the policies and laws of each participant. The agreement also should provide that any participant may reduce or waive the assessment of its share of the levy in accordance with its laws and policies. Furthermore, the agreement should provide for rights of use of information developed under the agreement for defense purposes of a participant without payment to the other participant(s).

090507. Taxes, Duties, and Similar Charges. Agreements may provide that, insofar as existing laws and regulations permit, the participants shall use their best efforts to ensure that readily identifiable taxes, customs duties, and similar charges on the program components and services shall not be levied in connection with the project. If an agreement obligates the U.S. Government to bear the cost of any U.S. taxes, duties, or similar charges levied in connection with the program, the legal memorandum or SSOI must identify the legal authority for such U.S. obligation.

090508. Advance of DoD Funds

A. An advance constitutes a disbursement of DoD funds before an authorized DoD official has certified that materials have been delivered or ordered services performed. An agreement shall not provide for DoD advance payments, unless the conditions for such advances, as set forth in Chapter 5, Volume 4, of this Regulation are met. Basically, advances to foreign countries are authorized when required for compliance with the laws and ministerial regulations of the foreign country and is further required by the agreement.

B. When possible, advances shall be made for no more than the amount necessary to fulfill the DoD share of project expenses for one month. Advances and prepayments shall not exceed the amount necessary to fulfill the DoD share of project expenses for a current fiscal quarter. If monies are paid in advance and deposited into commercial banks, provision must be made to ensure that the agreement requires:

1. payment of interest at competitive rates,
2. timely identification of interest earned by each party, and

3. interest disposition in accordance with the participants' instructions.

C. The DoD share of funding required to support an international project shall be obtained in full by appropriation, and no part of such funding shall be derived from interest earnings on U.S. contributions. In view of this policy, the U.S. Government share of interest earned on U.S. advance payments must be returned to the U.S. Treasury Miscellaneous Receipts Account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified." The interest shall not be used to reduce a future call for funds, nor used for any project cost that would result in funding derived outside the appropriation process.

D. Advances of DoD funds in excess of 90 days or \$5 million require consultation with the Department of the Treasury. Contact with the Department of the Treasury shall be through the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)).

090509. Billing Requirements. When payments are to be made, the agreement or subsequent financial arrangements must include the following information:

A. Billing Cycle. Bills for incurred costs are to be rendered on a 30-day cycle. This is a U.S. Treasury requirement and must be adhered to by the Department of Defense. However, in the negotiation process and at the initiation of other participants, agreement may be reached on up to a 90-day billing cycle.

B. Collecting Office. The agreement or subsequent financial arrangements shall provide the name and address of the organization to which payments shall be made. It also is desirable to set forth a position title and a telephone number to which questions may be addressed.

C. Paying Office or Offices. The agreement or subsequent financial arrangements shall provide the name and address of the organization that is responsible for making payments under the agreement. It also is desirable to set forth a telephone number and a position title to which questions may be addressed.

D. Payment Terms. The payment due date shall not be more than 30 days from the date of the invoice, unless otherwise specified in the agreement.

E. Documentation in Support of Billings. The agreement or subsequent financial arrangements must identify the form of the bill and the specific supporting details.

F. Currency of Payment. Normally, payment shall be in the currency of the supplying nation or the lead country if joint financing is provided for in the agreement. The invoice shall identify the amount paid in foreign currency at the current exchange rate and the equivalent conversion rate in U.S. dollars.

090510. Special Types of Agreements

A. Agreements for Reciprocal Exchange of Materials or Services. These agreements must set forth the time period allowed for exchange of materials and services. They also must set forth financial settlements that must be made if the exchange does not take place. DoD services or materials provided are priced in accordance with chapter 1 of Volume 11A of this Regulation,

B. Cooperative Research, Development, Test and Evaluation, Technical Data Exchange, Co-production, Licensed Production, and Related Standardization Agreements That Are Not Implemented through the Security Assistance Program. Full costs must be identified and shared equitably. Cost sharing may be accomplished through the following:

1. Pooling of monies and designation of a lead country to manage the program, collect cash, and award contracts. Specific shares of program cost are set forth in the agreement.

2. No pooling of monies or designation of a lead country. Specific efforts to be accomplished by each participating country and estimated costs of such efforts are set forth in the agreement.

**APPENDIX A
GUIDELINES FOR THE PREPARATION OF
SUMMARY STATEMENT OF INTENT (SSOI)**

Header Information:

- Short Title of Proposed Project
- DoD Proponent
- Country/ies Involved

1. Overview of International Agreement

- Briefly describe the project. Be specific as to what the project will deliver. Is this a new or existing U.S. project? Is there currently a Memorandum of Understanding or other international agreement in effect that is applicable to this effort?
- Is this proposed for Nunn funding? If so, what technological development is to be pursued which is necessary to develop new defense equipment or munitions, or what existing military equipment would be modified to meet U.S. requirements?

2. Operational Requirement

- What U.S. operational requirement would this project satisfy and/or what critical deficiency or shortfall would this project address? If known, cite applicable documents.
- Briefly describe the project's objectives.
- Provide an estimated schedule for the project, and Initial Operational Capability (IOC), if applicable.

3. Partner Nation(s)

- Which nations are proposed partners? Which nations have agreed to be partners? What is the assessment (and your basis for it) of foreign interest/commitment?
- Briefly describe the proposed negotiation strategy and negotiation schedule.

- Describe any planned variations from the policy guidance contained in the latest approved version of the International Agreements Generator ("IA Generator"), and any resulting variations to the required International Agreement text that are known.

4. Legal Authority

- State the statutory legal authority for the proposed agreement. If section 27 of the AECA is not being used, explain why not.

5. Project Management

- Briefly describe how the project will be structured and managed.

6. Benefits/Risks to the United States

- List the advantages and disadvantages of this cooperative project. Address project timing, developmental and life cycle costs, technology to be shared and obtained, impact on U.S. and foreign military capability, and rationalization, standardization and interoperability (RSI) considerations. Indicate whether there are any risks associated with conducting this project as an international cooperative program, and briefly describe how these risks are to be managed. Is a similar project currently in development or production in the U.S. or an allied nation? If so, could that project satisfy or be modified in scope to satisfy the U.S. requirement?

7. Potential Industrial Base Impact

- Briefly describe the potential industrial base impact. Do you anticipate workshare arrangements, requests for offsets, or offshore production of items restricted to procurement in the United States? Are you aware of any key parts or components with single source of production? What U.S. Government facilities and/or contractors would be likely to participate in this cooperative effort? Will there be any significant effects (pro or con) on any U.S. companies or U.S. industrial sector(s)?

8. Funding Availability and Requirements

- List the total estimated cost (in U.S. dollars) of the International Agreement. The total cost should include all U.S. and foreign government financial and non-financial costs.
- List the cost shares (in U.S. dollars) of each participant. Also list any non-financial contributions, their value (in U.S. dollars), and describe how the value was determined.

- If not equitable financially, justify on a program basis (show the relative benefit to the DoD). An equitable agreement is defined as one which a participant's share is commensurate with that participant's share of the anticipated benefits from the agreement.
- List the Department's estimated costs (in U.S. dollars) by fiscal year, appropriation, and program element. Indicate if the funds required to pay these costs have been, or will be, approved in the budget and are available for use.
- List other participant's estimated costs (in U.S. dollars) by fiscal year. If applicable, outline the likelihood of follow-on research or acquisition and the proponent's commitment to fund such follow-on action.

9. Procurement

- Will the Department of Defense participation in the project involve contracting? If so, what agency will perform the contracting, and for what part of the project work?
- Will a participant other than DoD perform contracting? If so, which participants and for what part of the work?
- Will contracting be done on a competitive basis? If not, what justification will be used?

10. Information Security and Technology Transfer Issues

- Briefly identify the products and/or technologies involved in the program and their NDPC category and classification. The Militarily Critical Technologies List (MCTL) may be used as a guide.
- Is an exception required to the National Disclosure Policy? If so, provide date of approval or date that a request will be submitted to the National Disclosure Policy Committee (NDPC).
- If known, describe the foreign availability of comparable systems and technologies and whether the U.S. technology has been shared through other programs, e.g., FMS, DEA, etc.
- Briefly describe the risk of compromise of classified and export controlled technology and/or products and the technology advantages in the event of such compromise (e.g., negating primary U.S. technological advantage(s), revealing U.S. system weaknesses, development of countermeasures, susceptibility to reverse engineering).

- Identify any measures proposed to minimize the potential risks and/or minimize any damage that might occur due to loss, diversions, or compromise of sensitive classified or unclassified controlled data or hardware. Specify NDPC categories involved, where applicable. Include any phased release of information designed to ensure that information is disseminated only when and to the extent required to conduct the program; restrictions on release of specific information (including classification, description, and disclosure methods); release of components, software or information in modified form (e.g., export versions, exclusion of design rationale and deletion of data on weapons not sold to the participant); and special security procedures (both government and industrial) to control access to restricted material and information.

11. Proponent's Points of Contact

- Include organization, name, telephone, fax, and Internet address. Assure that this POC or an alternate is available to answer any questions from reviewing offices during the RAD review period.

APPENDIX B
CHECKLIST FOR INTERNATIONAL AGREEMENTS

1. OSD/JCS Sponsor: _____
2. Implementing DoD Component: _____
3. Subject: _____
- _____
- _____

A. LEGAL AUTHORITY:

<u>Requirement</u>	<u>Remarks</u>
4. Legal Basis for Agreement:	
5. Special Pricing Requirements:	
6. Instructions for Disposition of Monies Collected by DoD:	
7. Special Instructions for Recognition of Budget Authority in DoD Appropriations or Funds:	
8. Special Prohibitions on the Use of Appropriated Funds:	

B. FISCAL INFORMATION:

<u>Requirement</u>	<u>Acceptable</u>
	No Yes
9. Financing Sources Identified for DoD Share:	
10. Proper Disposition of Funds Collected:	
11. Certification that Restrictions on the Use of Appropriated Funds Have Been Adhered to:	

12. Proper Valuation of Foreign Services and Material:
13. Proper Valuation of DoD Services and Material:
14. If commercial bank is used, it is a Treasury-designated depository:

Requirement

Acceptable
Yes No

C. PROPOSED AGREEMENT:

15. Agreement Provision on Fund Availability:
16. Total Dollar Value of Agreement Identified:
17. DoD share of Agreement Reconciled to Financing Sources:
18. Agreement Reflects Prescribed Pricing Rules:
 - (a) For DoD Provided Services or Material:
 - (b) For DoD Developed Technical Data:
19. Agreement Reflects Equitableness:
20. Agreement Provision for Third Party Sales:
21. Taxes, Duties and Similar Charges Excluded:
22. Agreement Provisions for Advance of DoD Funds:
23. (a) Agreement Provisions for Disposition of Interest Earned:
23. (b) Advance exceeds paragraph 090508.C. thresholds:
24. Billing Instructions in Agreement:

APPENDIX B
INSTRUCTIONS FOR COMPLETION OF CHECKLIST FOR INTERNATIONAL
AGREEMENTS

<u>Item Number</u>	<u>Description of Effort Performed</u>
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GENERAL INFORMATION

1. Identify OSD/JCS sponsor.
2. Identify the DoD Component that is responsible for implementing the international agreement if signed, e.g., Department of the Navy.
3. Set forth full subject of agreement.

LEGAL AUTHORITY

4. Determine if the legal basis for entering into the agreement is clearly set forth in the legal authority section.
5. Identify if the legal authority section sets forth any special pricing requirements. Summarize any special pricing requirements in the "remarks" section.
6. Identify if the legal authority section sets forth any special instructions for the disposition of amounts collected by the Department of Defense. Summarize requirements in the "remarks" section.
7. Identify if the legal authority section sets forth special rules for recognition of budget authority. Summarize any special rules in the "remarks" section.
8. Identify if the legal authority section identifies any prohibitions on the use of appropriated funds. Summarize requirements in the "remarks" section.

FISCAL INFORMATION

9. Identify paragraph OR SCHEDULE that identifies financing sources to be used to implement the international agreement. Check acceptable if financial sources have been identified.
10. Identify paragraph that provides instructions for disposition of any funds collected.

11. If the legal authority cites restrictions on the use of appropriated funds, identify paragraph that certifies that these restrictions are adhered to, otherwise annotate with "N/A."
12. To validate equitable financing when the foreign contribution is in other than currency, identify paragraph that summarizes the results of a price analysis of the foreign contribution, otherwise annotate with "N/A."
13. To validate equitable financing, identify paragraph that describes the valuation method for DoD provided services and material, otherwise annotate with "N/A." If full costing is used, check "yes" in the acceptable column if all chapter 1 of Volume 11A of this Regulation pricing elements were considered. If other than full cost pricing is used, cite the legal authority.
14. If a commercial bank is used, the bank should be a U.S. Treasury-designated depository. Identify if there is a description of how the bank account is to operate.

PROPOSED AGREEMENT

15. Identify the paragraph of the proposed agreement that contains the fund availability qualification clause.
16. Identify the paragraph of the proposed agreement that sets forth the total dollar value of the agreement. Check acceptable if this amount reconciles to the value identified in the fiscal information section.
17. Identify the paragraph of the proposed agreement that sets forth the dollar value of the DoD share of the agreement. Check acceptable if this amount reconciles to the financing sources identified in the fiscal information section.
- 18.a. Identify the paragraph that provides for the provision of services, materials, or financial contribution.
- 18.b. Identify the paragraph that provides for the provision of DoD technical data developed prior to implementation of the agreement. Check acceptable if priced in accordance with this chapter.
- 19.a. If the agreement is equitable basis from a financial viewpoint, identify the agreement paragraph and attach the worksheet prepared in accordance with this chapter. Indicate in the acceptable column if the worksheet reflects equitability.
- 19.b. If the agreement is not financially equitable and is justified on a program basis, attach a copy of the program or equitability justification.

20. Identify the paragraph that sets forth procedures for third party sales and transfers of technical data developed under the agreement. Check acceptable if there is compliance with this chapter.
21. If applicable, identify the paragraph that excludes taxes, duties, and similar charges. Check acceptable if there is compliance with this chapter.
22. If applicable, identify agreement paragraph that provides for advance of DoD funds. Assure that advances meet requirements of this chapter.
- 23.a. If advances are made, ensure the agreement contains necessary provisions on the disposition of interest earned.
- 23.b. If advance exceeds thresholds, Department of the Treasury concurrence must be obtained. Check acceptable if the Directorate for Accounting Policy, Office of the Under Secretary of Defense (Comptroller) has obtained coordination.
24. If billing is applicable, identify agreement provisions for billing. Check acceptable if there is compliance with this chapter.

CHAPTER 10

**FUNDING CIVILIAN SEPARATION INCENTIVES
AND CIVILIAN PERSONNEL TRANSITION INITIATIVES**1001 Definitions

For the purpose of this guidance, the term "civilian separation incentives" means resignation and retirement incentives authorized by Title 5, United States Code, section 5597, and outplacement subsidies authorized under Chapter 16 of the "DoD Civilian Personnel Manual" that are offered to an employee, in order to induce the voluntary separation of that employee and/or create a vacancy for an employee of the same or another DoD Component.

1002 General Funding Policy

100201. DoD activities may pay up to \$25,000 for separation incentives or up to \$20,000 for outplacement subsidies from appropriations, funds, or accounts available for such purposes to an employee and/or to create a vacancy for another employee.

100202. Funding by a DoD central account is not provided.

1003 Procedures. Funds for separation incentives and outplacement subsidies shall be obligated when an employee accepts the offer of an incentive payment. The obligations shall be recorded in general ledger account 6113, "Personnel Benefits-Civilian," and reported as object class 13.0, "Civilian Personnel Benefits." The following guidance applies to the Separation Incentives Program:

100301. Appropriated Fund Employees. A DoD Component that offers civilian separation incentives to an employee, in order to induce the voluntary separation of that employee and/or to create a vacancy for another employee of the same DoD Component, shall fund the resulting separation payments from the applicable appropriation, fund or account that otherwise is available to pay for salaries and expenses of that DoD Component.

100302. Business Operations Fund Employees. Beginning in FY 1995 the Defense Business Operations Fund is authorized to pay for separation incentives.

100303. Base Realignment and Closure (BRAC) Act. Beginning in FY 1995, the Defense Base Closure Account is available for payment of separation incentives. The departmental policy contained in this regulation, Volume 2B, section 070201.B.5 provides the general criterion to apply costs to the DoD Base Realignment and Closure Account.

100304. Employees Paid from or Reimbursed by Foreign Military Sales Trust Fund. For employees paid from, or whose salaries are fully reimbursed by, the Foreign Military Sales (FMS) Trust Fund, an offer of separation incentives or civilian personnel transition initiatives

(either to an FMS Fund civilian employee or a non-FMS Fund civilian employee to benefit an FMS Fund civilian employee) shall be funded as follows:

A. Separation incentives offered to an FMS civilian employee, in order to induce a voluntary separation of the FMS civilian employee, with the elimination of that FMS civilian employee position, shall be paid by the FMS Fund.

B. Separation incentives offered to an FMS civilian employee, in order to create a vacancy within the same DoD Component for another FMS civilian employee who otherwise would be separated, shall be paid by the FMS Fund.

C. Separation incentives offered to a non-FMS civilian employee, in order to create a vacancy for an FMS civilian employee who otherwise would have been separated, where the FMS civilian employee continues fully to support the FMS program, shall be paid by the FMS Fund.

D. Any costs of outplacement subsidy described in subsection 260305., below, for a FMS civilian employee shall be funded by the FMS Fund.

E. No other separation payments are chargeable to the FMS Fund.

100305. Placements Outside the Department. DoD activities may pay up to \$20,000 in Permanent Change of Station (PCS) costs associated with placement of a surplus DoD employee with another Federal Agency. When a DoD Component-offered outplacement subsidy is accepted, the DoD activity shall notify the gaining Federal Agency regarding outplacement services. The notification shall state that DoD funds may be billed up to \$20,000 per employee or for the actual PCS costs, whichever is less. The notification shall include the DoD fund citation to be billed and the address of the fiscal station paying the subsidy. Payment shall be made by the applicable DoD activity based upon documentation of the amounts paid or to be paid to the employee by the gaining Federal Agency.

100306. Controls over Available Funds. Controls shall be established to ensure that sufficient funds are available to cover projected requirements for employee acceptance of incentive offers and outplacement subsidies each quarter. Normal Antideficiency Act provisions apply to the DoD Component appropriations, funds and accounts. Therefore, if available funds are projected to be inadequate to cover anticipated incentive program acceptances and outplacement subsidies, appropriate action shall be taken. In this regard, the DoD Components either shall cancel or withdraw incentive offers prior to employee acceptance, or obtain additional funds.

1004 Reporting

100401. Each DoD Component shall maintain records of all offers made, acceptances, and payments. Records also shall be maintained of all orders for outplacement

subsidies issued and disbursed by a DoD Component. In addition to the information requested in Chapter 16 of the "Civilian Personnel Manual" on Civilian Separation Pay Implementing Instructions, the following information shall be submitted by each DoD Component.

100402. On a monthly basis, both the Civilian Personnel Management Service and the Director for Operations and Personnel, Office of the Under Secretary of Defense (Comptroller), shall be advised of the cumulative fiscal year to date amounts of:

- A. Total number and amount of orders for outplacement subsidies issued by the DoD Component.
- B. Total amount and quantity of civilian personnel transition incentives paid to employees to create vacancies for the benefit of employees of other DoD Components.
- C. Total amount and quantity of civilian personnel transition incentives paid to employees from DoD Component funds.

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CHAPTER 11

RESERVED FOR FUTURE USE

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CHAPTER 12

**IDENTIFICATION, RETENTION, AND USE OF
ENERGY CONSERVATION SAVINGS**1201 OVERVIEW

120101. Purpose. This chapter prescribes financial management policy and procedures for the identification, retention, and reuse of energy cost savings as defined in Title 10, United States Code, section 2865 and Public Law 100-456 (FY 1989 National Defense Authorization Act), section 736, as amended (Title 42, United States Code, section 8287 note).

120102. General

A. Appropriated funds that remain available at the end of the current fiscal year as a result of energy cost savings realized by the Department of Defense shall remain available for obligation during the following fiscal year to the extent, and for purposes, provided by 10 U.S.C. 2865. The purpose of this extended availability is to fund energy conservation efforts, and other measures specified in paragraphs 120401.A. and B., below, from energy cost savings accrued during the previous fiscal year.

B. Energy Savings Performance Contracts (ESPC) as defined by Public Law 100-456, section 736, as amended, provides that energy cost savings realized by the Military Departments during the first 5 years of an ESPC shall remain available for obligation until expended. The purpose of this extended availability is to fund energy conservation efforts, and other measures specified in paragraph 120402.A., below, from cost savings accrued during the first 5 years of an ESPC.

1202 RESPONSIBILITIES

120201. The Secretary of Defense has overall responsibility for the management of provisions of 10 U.S.C. 2865 and Public Law 100-456, section 736, as amended.

120202. Secretaries of the Military Departments and Directors of Defense Agencies (hereafter referred to as "Component Heads") shall approve and authorize funding for conservation measures, as described in paragraph 120501.A., below, and determine and report energy cost savings as described in paragraph 120402.C., below.

120203. The Under Secretary of Defense (Comptroller) shall, in consultation with the General Counsel and the Inspector General of the Department of Defense, implement policies and procedures for the administrative control of funds applicable to the extended availability for obligations associated with energy cost savings authorized by 10 U.S.C. 2865 and Public Law 100-456, section 736, as amended.

120204. The Deputy Under Secretary of Defense (Industrial Affairs and Installations), Office of the Under Secretary of Defense (Acquisition and Technology), shall issue policies and procedures to:

A. Identify energy conservation projects suitable for implementation as described in paragraph 120401.A., below.

B. Report amounts of energy cost savings, as described in paragraph 120402.C., below.

120205. The Director, Defense Finance and Accounting Service shall provide manual or automated systems to account for and report on, the extended availability of funds authorized by 10 U.S.C. 2865 and Public Law 100-456, section 736, as amended.

120206. Installation Commanders shall ensure that energy cost savings amounts carried over into extended availability accounts are administered in accordance with the guidance provided in subparagraph 120501.A.2. or paragraph 120502.A., below, as applicable.

1203 DEFINITIONS The following definitions apply with respect to the identification, retention and use of energy conservation cost savings:

120301. Extended Availability. An additional period of availability for obligation of the unobligated balances of appropriated funds, past the fiscal year by which such appropriations otherwise would have expired. The length of the period of extended availability is determined by the applicable statutory provision:

A. Under 10 U.S.C. 2865, unobligated balances at the end of a current fiscal year as a result of energy cost savings realized, shall remain available for obligation for the following fiscal year in which the funds were appropriated.

B. Under Public Law 100-456, section 736, as amended, energy cost savings realized during the first 5 years of an ESPC shall remain available for obligations until expended.

120302. Extended Availability Account. An account established at the installation level for each appropriation for which energy cost savings have been identified, and to which unobligated balances resulting from such energy cost savings, or a portion thereof, are transferred. The transfer shall be documented on an SF 1151 (Nonexpenditure Transfer Authorization). The authority to be cited shall be, as applicable, 10 U.S.C. 2865 or Public Law 100-456, section 736, as amended.

120303. Energy Cost Savings. There are two definitions of energy cost savings, determined by the applicable statutory provisions:

A. Under 10 U.S.C. 2865, energy cost savings are defined as a reduction in the cost of energy from a baseline cost, determined by metering, if available, or by professionally acceptable engineering models and estimates.

B. Under Public Law 100-456, section 736, as amended, energy cost savings are defined as a reduction in the cost of energy from a base cost established through a methodology set forth in an ESPC, utilized in an existing DoD-owned building or facility as a result of (1) the lease or purchase of operating equipment, improvements, altered operation and maintenance, or technical services; or (2) the increased efficient use of existing energy sources by cogeneration or heat recovery.

120304. Energy Savings Performance Contract (ESPC). An ESPC is defined as a contracting procedure in which a private contractor evaluates, designs, finances, acquires, installs and maintains energy saving equipment for a DoD Component, and receives compensation based on the performance of that equipment over an extended period of time (not to exceed 25 years, including options). The contract terms shall establish a guaranteed savings amount and determine the level of compensation to be paid the contractor, with the remainder of the savings retained by the Department of Defense, to be utilized and accounted for in accordance with the procedures set forth in paragraphs 120402.A. and 120601.B., below.

120305. Guaranteed Savings. Is a minimum energy savings amount, established by the terms of an ESPC, and realized by the performance of contractor-installed, energy saving equipment over an extended period of time. Guaranteed savings are divided between an amount to be paid the contractor, and an amount to be retained by the government, in accordance with the terms of an ESPC.

1204 PURPOSES FOR WHICH UNOBLIGATED BALANCES RESULTING FROM ENERGY CONSERVATION MEASURES ARE AUTHORIZED.

120401. "Energy Savings at Military Installations" (Title 10, U.S.C., section 2865). Provides that two-thirds of the portion of the funds appropriated to the Department of Defense for a fiscal year that is equal to the amount of energy cost savings realized by the Department, shall be extended for obligation in the following fiscal year, in accordance with the statutory guidelines described in paragraphs 120401.A. and B., below. Those guidelines identify individuals who may designate the use of unobligated balances resulting from energy cost savings and the purposes for which such amounts may be used. The remaining one-third of the energy cost savings will not be extended, and thus will not be available for obligation in the following fiscal year.

A. The Department's implementation of this section requires that one-third of the amount of energy cost savings resulting from energy conservation measures (i.e., one-half of the two-thirds amount available to the Department under 10 U.S.C. 2865) will be used only for specific purposes. Such purposes are to implement additional energy conservation measures at Department of Defense buildings, facilities or installations. These measures will be designated by the cognizant Component Head, or delegated authority (hereafter referred to as "designee"). The Office of the

Deputy Under Secretary of Defense (Industrial Affairs and Installations) shall issue guidance for the purposes of identifying energy conservation projects.

B. Additionally, as determined by the commander of a military installation at which the energy cost savings were realized, the remaining one-third of these savings shall be used only for:

1. Improvements to existing military family housing units;
2. Any unspecified minor construction project that will enhance the quality of life of personnel; or
3. Any morale, welfare, or recreation facility or service.

C. Energy cost savings amounts in paragraph 120401, above, shall be transferred to extended availability accounts for execution. Accounting for amounts in these accounts shall be established at the level that facilitates the use of the account and provides the appropriate control and oversight (normally at the installation level).

D. An extended availability account shall be established for each appropriation for which energy conservation savings, as defined by 10 U.S.C. 2865, have been identified. Transfers to an extended availability account shall be made using an SF 1151 (Nonexpenditure Transfer Authorization). Reprogramming actions will not be required.

120402. "Energy Efficiency Incentive" (Public Law 100-456, section 736, as amended). Establishes the purposes for which energy cost savings realized by means of an ESPC may be used. These purposes will be determined at the military installation level, within the guidelines discussed below.

A. Specifically, energy cost savings realized in each of the first 5 years under an ESPC may be used as follows:

1. One-half of the amount of such energy cost savings may be used for the acquisition of any appropriate energy conserving measure for military installations, including measures directly not related to the contract that yielded the savings.
2. One-half of the amount of such energy cost savings may be used for any morale, welfare, or recreation facility or service that normally is provided with appropriated funds, or for any minor military construction project funds (as defined in 10 U.S.C. 2865) that will enhance the quality of life of members of the Armed Forces at the military installation at which the energy cost savings were realized.

B. The portion of the guaranteed savings due to the contractor for payment shall be included in the utility requirements submitted as part of budget requests for the length of

the ESPC. The entire amount of guaranteed savings provided for in an ESPC (including amounts for contract payments and amounts to be retained by the installation) shall be included in total utility requirements submitted as part of the installation budget requests for the first 5 years of the ESPC. This conforms with the intent of Public Law 100-456, section 736, as amended, which provides incentives for energy conservation efforts at the military installation level. Under no circumstances shall the total of the budget request amounts exceed what would have been requested in the absence of an ESPC.

C. Not more than 90 days after the end of each of the first 5 years, during which energy savings measures have been in operation under a contract, entered into under an ESPC, the Component Head concerned, or designee, shall determine the amount of energy cost savings realized under the terms of the ESPC during that year, attributed to energy savings measures acquired and installed at that installation pursuant to that ESPC. These savings shall be reported in accordance with guidance issued by the Office of the Deputy Under Secretary of Defense (Industrial Affairs and Installations).

D. An extended availability account shall be established for each appropriation for which energy conservation savings have been determined under paragraph 120402.C., above. Transfers to an extended availability account shall be made by using an SF 1151 (Nonexpenditure Transfer Authorization). Reprogramming actions will not be required.

E. Once verified as described in paragraph 120402.C., above, energy cost savings amounts shall be transferred to the extended availability accounts (defined below) for execution purposes. Accounting for amounts in these accounts shall be established at the level that facilitates the use of the account, and provides the appropriate control and oversight (normally at the installation level).

1205 CARRYOVER OF UNOBLIGATED BALANCES RESULTING FROM ENERGY CONSERVATION MEASURES

120501. "Energy Savings at Military Installations" (Title 10, U.S.C., section 2865). As stated in paragraph 120401.A., above, the applicable Component Head or designee, shall approve additional energy conservation measures to be funded by one-third of energy cost savings resulting from the original energy conservation measure(s). Similarly, the installation commander determines the use of the other one-third of the energy cost savings for use as described in paragraph 120401.B., above. Energy conservation cost savings carryover procedures follow:

A. Procedures

1. Component Head or Designee. The Component Head, or designee, shall receive and evaluate savings measures submitted by installation commanders, and authorize funding for those other energy savings measures as the Component Head deems appropriate, to comply with the provisions in subsection 120401, above. The Component Head, or designee, also shall ensure that procedures are established to provide sufficient time to compute the energy cost

savings, and earmark appropriate unobligated amounts to carry over to the following fiscal year. A Component Head may delegate the responsibilities for approval of energy savings measures. Delegations of authority are matters of personal discretion. They shall be exercised by the appropriate Component Head, and as in all other matters pertaining to the operations of the Department of Defense, to the authority, direction, and control of the Secretary of Defense or the Secretary's designee.

2. Installation Commander. Installation commanders, or their designees, shall ensure that energy cost savings amounts that are carried over to future fiscal years, are authorized to be used only for funding energy conservation initiatives approved by the Component Head, or designee, or for other purposes specified in paragraph 120401.B., above. Installation commanders also shall:

a. Ensure the retention of unobligated fund balances available at the end of the normal period of appropriation availability, that are the direct result of energy conservation measures. Funds to be carried forward to the following fiscal years shall be based on the most current available consumption data and represent actual unobligated funds and not be based on estimates.

b. Ensure that the unobligated energy cost savings balances at year-end are carried forward into the following fiscal year, and designate the original appropriation as an extended availability account (see paragraph 120601.A., below).

c. Submit to the Component Head, or designee, proposed energy savings projects for a given fiscal year that are projected to cost more than the amount of funds available to the Commander for that purpose.

d. Implement additional energy conservation initiatives approved by the Component Head, or designee, and other projects as specified in paragraph 120401.B., above.

120502. "Energy Efficiency Incentive" (Public Law 100-456, section 736, as amended). As stated in subsection 120402, above, unobligated balances, carried forward into subsequent fiscal years as the result of an ESPC, normally will be administered and accounted for at the installation level.

A. Installation commanders, or their designees, shall ensure that energy cost savings amounts that are carried forward to subsequent fiscal years are used only for the purposes specified in paragraph 120402.A., above. Installation commanders also shall:

1. Ensure the retention of unobligated appropriation balances existing at the end of the normal period of appropriation availability, that are the direct result of energy conservation measures. Funds to be carried forward to subsequent fiscal years shall be based on the

most current available consumption data and represent actual unobligated funds and shall not be based on estimates.

2. Ensure that unobligated energy cost savings balances at year-end are carried forward into the following fiscal year, and designate the original appropriation as an extended availability account (see subparagraph 120601.B., below).

1206 ACCOUNTING FOR ENERGY COST SAVINGS

120601. Energy cost savings amounts. The savings amounts resulting from energy conservation measures as described in subsections 120401 or 120402, above, as applicable, shall be obligated and recorded against extended availability accounts, which may be retained into the following fiscal year(s) in accordance with one of the following procedures, as applicable:

A. In the case of cost savings amounts realized in accordance with 10 U.S.C. 2865, the lesser of (1) two-thirds of the identified energy cost savings or (2) actual (versus estimated) unobligated funds are to be transferred to an extended availability account on an SF 1151 (Nonexpenditure Transfer Authorization), and properly labeled (e.g. FY 1996/1997 for a FY 1996 account). The authority to be cited for the transfer is 10 U.S.C. 2865. No further adjustments shall be made to the amounts carried forward once the balance is established in the extended availability account.

B. In the case of cost savings amounts realized under an ESPC, once the savings are verified and approved by the cognizant Component Head or designee (see paragraph 120402.C., above), that amount shall be transferred to an extended availability account on an SF 1151 (Nonexpenditure Transfer Authorization), and properly labeled (e.g., FY 1996/1997 for a FY 1996 account; FY 1996/1998 for a FY 1996 account in the second year, etc.). The authority to be cited for the transfer is Public Law 100-456, section 736, as amended.

120602. Refunds or Rebates. Refunds or rebates paid by a utility company as a result of completion of a utility-approved conservation action (typically a facility project) shall be credited to the same account from which the conservation action originally was funded. Such amounts may be extended for obligation in subsequent year(s), subject to the provisions of subsections 120401 or 120402, above, as applicable.

120603. Cancellation of Appropriation

A. Extended availability accounts established under paragraphs 120401.D. and 120402.D., above, shall remain available for expenditure (i.e., liquidation of obligations) for up to a total of 5 years following the year in which the funds either:

1. Expired for obligation purposes at the end of the year of extended availability, in the case of funds authorized in accordance with 10 U.S.C. 2865; or,

2. Were expended, in the case of funds extended under the provisions of Public Law 100-456, section 736, as amended.

B. Under no circumstances shall funds, extended under 10 U.S.C. 2865, remain available for expenditure beyond the end of the sixth year following the year in which the funds would have expired, had the period of availability not been extended. (For example, if an O&M appropriation normally would expire at the end of FY 1996, the extended availability account normally would expire at the end of FY 1997. The extended availability account would be available for expenditures until the end of FY 2002, at which time any remaining obligated and unobligated balances would be canceled.)

C. In order to account properly for such amounts, and ensure compliance with future cancellation dates, obligations of extended availability funds must be accounted for separately from obligations of other funds, as described in paragraphs 120401.D and 120402.D., above.

1207 REPORTING REQUIREMENTS The following reporting requirements shall be used to report the status of extended availability accounts:

120701. Acct Rpt (M) 1002. Special procedures have been established for reporting extended availability obligated and unobligated balances on the Acct Rpt (M) 1002 (Appropriation Status by Fiscal Year Program and Subaccounts). These procedures are as follows:

A. Normal Availability Obligated and Unobligated Balances. Identify and report as normal.

B. Extended Availability Unobligated Balance. Identify, in column i. (Total Unobligated Balance), unobligated extended availability amounts resulting from energy cost savings at the end of the normal availability period (e.g., FY 199X/199X+1 or FY 199X/199X+2, +3, and so on) available unobligated amounts (that is, FY 1996/1997, FY 1996/1998, etc., for the FY 1996 account). The stub entry shall identify the unobligated extended availability amount as "Extended Availability - Energy Cost Savings." The amount reported shall agree with the amount reported on line 9.A.1. of the SF 133 (formerly DD Form 1176), "Report on Budget Execution" (see subsection 120702, below).

C. Extended Availability Obligated Balance. Identify, in column e, obligations incurred against the extended availability account. The stub entry shall identify those obligations as to the purpose for which the obligations were incurred. Those purposes are "Energy Conservation Measures" and "Other Purposes" as defined in subsections 120401 and 120402, above. In the case of funds extended under 10 U.S.C. 2865, unobligated amounts remaining at the end of the extended availability period, expire for new obligations. In the case of funds extended under Public Law 100-456, section 736, as amended, funds remain available for obligation until expended. The

reporting categories for the extended availability accounts are to be continued for all applicable fiscal years.

120702. SF 133 (Report on Budget Execution). At the end of the first fiscal year, use line 9.A.1, "Balance Currently Available" on the SF 133, to identify the amount of available unobligated funds that are available for energy savings investments (or other authorized purposes) in the following fiscal year(s).

120703. Acct Rpt (TFM) 2108. Transactions reported on the Acct Rpt (TFM) 2108 (Year-End Closing Statement) will be treated in the same manner as a multi-year appropriation.

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CHAPTER 13

FISCAL POLICY FOR BASE CLOSURE AND REALIGNMENT1301. OVERVIEW

130101. Purpose. This Chapter provides the financial policy and procedures for base closure and realignment.

130102. General

A. Since 1988, the Congress has enacted legislation that created four separate accounts on the books of the Treasury to finance base closure and military installation realignment.

1. Section 207 of the Defense Authorization Amendments and Base Closure and Realignment Act (Public Law (P.L.) 100-526), October 24, 1988, established the "DoD Base Closure Account."

2. Section 2906 of the Defense Base Closure and Realignment Act of 1990 (P.L. 101-510), November 5, 1990, created the "DoD Base Closure Account 1990."

3. Section 2921 of the 1990 Act established the "DoD Overseas Military Facility Investment Recovery Account."

4. Section 344 of the National Defense Authorization Act for Fiscal Years 1992 and 1993 (P.L. 102-190), established the "Reserve Account."

B. This guidance supersedes and rescinds the financial management policy and procedures for the "DoD Base Closure Account" previously issued as follows:

1. Principal Deputy Comptroller memorandum, dated January 3, 1990, subject: DoD Base Closure Account, and subsequently modified by a Deputy Comptroller (Management Systems) memorandum, dated January 24, 1990, same subject.

2. Deputy Comptroller (Management Systems) memorandum, dated May 4, 1991, subject: Disposition of Proceeds from the Sale of Assets Resulting from DoD Base Closures.

C. Additionally, this guidance supersedes and rescinds the Office of the Deputy Comptroller (Management System) memorandum of June 17, 1991, subject: Guidance

for DoD Overseas Military Facility Investment Recovery Account, that previously established financial management guidance for the subject Account.

D. Also, this guidance establishes funds distribution, accounting and reporting policy and procedures for the "DoD Base Closure Account 1990" and the "Reserve Account."

1302. POLICY AND PROCEDURES

130201. General

A. DoD Components are responsible for implementing all base closure and realignment actions, and administering allocations of base closure funds.

B. Care should be exercised to ensure that proceeds are deposited in the appropriate account authorized by law. Funds erroneously deposited into an account, or deposited to a suspense account or other interim accounts, shall be transferred to the appropriate account. An SF 1080, "Voucher for Transfers Between Appropriations and/or Funds" may be used to transfer funds to the proper account.

130202. DoD Base Closure Account

A. The Treasury symbol for this Account is 97_0103. This Account is identified as the "Base Realignment and Closure Account, Part I, Defense" in the Treasury's Federal Account Symbols and Titles (FAST) publication.

B. Except as provided for in paragraph 130202.D., below, funds deposited into this Account shall be:

1. Funds authorized for, and appropriated to, the Account with respect to Fiscal Year (FY) 1990 and fiscal years beginning thereafter.

2. Proceeds from any Military Department or other instrumentality (including a nonappropriated fund instrumentality) within the Department that agrees to pay fair market value for the property or facility, or portion thereof. Fair market value shall be determined on the basis of the use of the property or facility on December 31, 1988.

3. Proceeds from the transfer or disposal of any other property or facility made as a result of a closure or realignment under the provisions of P.L. 100-526.

C. Proceeds resulting from the sale or disposal of property or facilities (including buildings and structures) due to the base closure process shall be deposited as reimbursements into the DoD Base Closure Account. These reimbursements shall be treated as a collection and an earned reimbursement, and credited to the appropriation as a budget source.

D. A portion of the proceeds resulting from the transfer or disposal of any real property or facility acquired, constructed, or improved (in whole or in part) with commissary store funds or nonappropriated funds shall be deposited in the "Reserve Account." The amount so deposited shall be equal to the depreciated value of the investment made with such funds in the acquisition, construction, or improvement of that particular real property or facility. The depreciated value of the investment shall be computed in accordance with Chapter 6 of Volume 4 of this Regulation. The "Reserve Account" is discussed in paragraph 130205, below.

E. Subject to availability, funds in the Account may be used to:

1. Carry out actions as may be necessary to close or realign any military installation. Such actions include acquisition of such land, construction of such replacement facilities, performance of such activities, and conduct of such advance planning and design as may be required to transfer functions from an installation being closed or realigned to another military installation.
2. Provide economic adjustment assistance to any community located near an installation being closed or realigned.
3. Provide community planning assistance to any community located near an installation to which functions will be transferred as a result of such closure or realignment.
4. Carry out activities for the purposes of environmental restoration at an installation being closed or realigned. This includes reducing, removing and recycling hazardous waste, and removing unsafe buildings and debris.

130203. DoD Base Closure Account 1990

A. The Treasury symbol for this Account is 97X0510. This account is identified as the "Base Realignment and Closure Account, Part II, Defense," in the Treasury's Federal Account Symbols and Titles (FAST) publication.

B. Except as provided for in paragraph 130203.D., below, funds deposited into this Account shall be:

1. Funds authorized for, and appropriated to, the Account.
2. Proceeds received from the sale or disposal of any property at an installation closed or realigned under the provisions of P.L. 101-510.

C. Proceeds resulting from the sale or disposal of property or facilities (including buildings and structures) due to the base closure process shall be deposited as reimbursements into the DoD Base Closure Account 1990. These reimbursements shall be treated as a collection and an earned reimbursement, and credited to the appropriation as a budget source.

D. Proceeds received after September 30, 1995, from the transfer or disposal of any property at a military installation closed or realigned under title II of the Defense Authorization Amendments and Base Closure and Realignment Act (PL 100-526; 10 USC 2687) shall be deposited as reimbursements into the DoD Base Closure Account 1990.

E. A portion of the proceeds resulting from the transfer or disposal of any real property or facility acquired, constructed, or improved (in whole or in part) with commissary store funds or nonappropriated funds shall be deposited in the "Reserve Account." The amount so deposited shall be equal to the depreciated value of the investment made with such funds in the acquisition, construction, or improvement of that particular real property or facility. The depreciated value of the investment shall be computed in accordance with Chapter 6, Volume 4, of this Regulation. The "Reserve Account" is discussed in paragraph 130205, below.

F. Subject to their availability, funds in the Account may be used to:

1. Carry out actions as may be necessary to close or realign any military installation. Such actions include acquisition of such land, construction of such replacement facilities, performance of such activities, and conduct of such advance planning and design as may be required to transfer functions from an installation being closed or realigned to another military installation.

2. Provide economic adjustment assistance to any community located near an installation being closed or realigned. Additionally, provide community planning assistance to any community located near a military installation to which functions will be transferred as a result of such closure or realignment.

3. Carry out activities for the purposes of environmental restoration and mitigation at an installation being closed or realigned. This includes reducing, removing and recycling hazardous waste, and removing unsafe buildings and debris.

4. Provide outplacement assistance to civilian employees employed by the Department at installations being closed or realigned.

5. Reimburse other Federal agencies for actions performed at the request of the Secretary with respect to any such closure or realignment.

130204. DoD Overseas Military Facility Investment Recovery Account

A. The Treasury symbol for the receipt account (funds deposited in the DoD Overseas Military Facility Investment Recovery Account Deposits, DoD) are 97x5193.017, .057, .021, and .097, as applicable. The Treasury symbol for the special fund account (expenditure of funds from the Account) is 97X5193.

B. Except as provided for in paragraph 130204.C., below, funds deposited into this Account shall be amounts paid to the United States, pursuant to any treaty, status of forces agreement, or other international agreement to which the United States is a party, for the residual value of real property or improvements to real property used by civilian or military personnel of the Department.

1. Steps must be taken to ensure that the United States receives, through direct payment or otherwise, consideration equal to the fair market value of the improvements made by the United States at facilities that will be released to host countries. Determination of the fair market value of such improvements should be conducted on a facility-by-facility basis.

2. The term "fair market value of the improvements" means the value of improvements on the basis of their highest use.

3. The term "improvements" includes new construction of facilities and all additions, improvements, modifications, or renovations made to existing facilities or to real property, without regard to whether they were carried out with appropriated or nonappropriated funds.

C. In the case of a payment for the residual value of real property or improvements at an overseas military facility, the portion of the payment that is equal to the depreciated value of the investment made with nonappropriated funds shall be deposited in the "Reserve Account"--not in the "DoD Overseas Military Facility Investment Recovery Account."

D. Subject to availability, funds in the Account may be used by the Department for payment, as provided for in appropriations acts, of costs incurred by the Department in connection with (1) facility maintenance and repair and environmental restoration at military installations in the United States, and (2) facility maintenance and repair and compliance with environmental laws at military installations outside the United States that the Secretary anticipates will be occupied by the U.S. Forces for an extended period of time.

130205. Reserve Account

A. The Treasury symbol for the receipt account (funds deposited into the Reserve Account) is 97X5195.1. The Treasury symbol for the special account (expenditure of

funds from the Reserve Account) is 97X5195. This account is identified as "Use of Proceeds from the Transfer or Disposition of Commissary Facilities."

B. The transfer or disposal of a commissary or nonappropriated fund (NAF) facility must be connected with the closure or realignment of a military installation. A portion of the proceeds equal to the depreciated value of the investment made in any real property or facility acquired, constructed or improved (in whole or in part) with commissary store funds or nonappropriated funds shall be deposited into this Account.

C. If the proceeds from the transfer or disposal of any real property or facility acquired, constructed or improved (in whole or in part) with commissary store funds or nonappropriated funds are greater than the depreciated value, then the excess amount shall be deposited into the appropriate base closure account, not the Reserve Account.

1. The term "commissary store funds" means funds received from the adjustment of, or surcharge on, selling prices at commissary stores fixed under 10 U.S.C. 2685.

2. The term "nonappropriated funds" means funds received from a NAF instrumentality. (See the "Definitions" section of Volume 13, "Nonappropriated Funds Policy and Procedures," of this Regulation.)

3. The term "nonappropriated fund instrumentality" means an instrumentality of the United States under the jurisdiction of the Armed Forces (including the Military Exchange Services) which is conducted for comfort, pleasure, contentment, or physical or mental improvement of members of the Armed Forces. (See the "Definitions" section of Volume 13 of this Regulation.)

4. The depreciated value of the investment made by nonappropriated funds shall be computed in accordance with Chapter 3, Volume 13 of this Regulation.

C. Subject to availability, funds in the Account may be used, if appropriated in advance by the Congress, for the purpose of acquiring, constructing, or improving commissary stores, and real property and facilities for NAF instrumentalities.

D. DoD Components are responsible for ensuring that budgeting and accounting procedures can separately identify the (1) commissary, (2) exchange system, and (3) all other nonappropriated fund instrumentalities balances in the Reserve Account.

1303 BUDGET AND ACCOUNTING RESPONSIBILITIES

130301. Requests for Funds

A. DoD Components. The Military Departments and Defense Agencies, in cooperation with and at the direction of the Under Secretary of Defense (Acquisition and Technology) or designee, the Director for Base Closure and Utilization, shall:

1. Submit a financial plan to the Directorate for Military Construction, ODC(P/B), OUSD(C), supported by a "DoD Base Closure Account Financial Plan," (Format 460-BC) (Attachment 1), to request allocations of base closure funds. For planned military construction and family housing construction requirements, each project to be executed using requested base closure funds will be individually listed on the financial plan. Also, a separate narrative explanation for other planned expenditures will also be submitted to the Directorate for Military Construction, ODC(P/B), in sufficient detail on the Format 460-BC to support the DoD Component financial plan. Host DoD Components are responsible for coordination with all affected tenant activities, including Defense Agencies, Defense Medical Facilities Office, Reserve Components, and nonappropriated fund activities. Tenant activities will identify specific base closure program requirements to their host DoD Component.

2. Notify the Office of the Under Secretary of Defense (Acquisition and Technology) and the Directorate for Military Construction, ODC(P/B), of any deviations of 5 percent per quarter from, or rephasing of, the OUSD(C)-approved planned execution of allocated base closure funds. When a military construction or family housing project is to be executed, but does not appear on the approved financial plan of a DoD Component, the prior approval of the Directorate of Military Construction, ODC(P/B), is required.

B. Directorate for Military Construction, ODC(P/B). This office shall initiate the Apportionment and Reapportionment Schedule (DD Form 1105) for the appropriate base closure account for submission to the Office of Management and Budget (OMB) for its approval.

130302. Funds Distribution

A. Directorate for Military Construction, ODC(P/B). This office shall, upon approval by the OMB of the Apportionment and Reapportionment Schedule (DD Form 1105) for the base closure account, provide a Fund Authorization Document to the Director for Budget and Finance, Washington Headquarters Services (WHS), for recording in the agency level accounting records.

B. Director, Defense Finance and Accounting Service. The Director, Defense Finance and Accounting Service shall obtain and record, in the departmental-level accounting records, an appropriation warrant (TFS Form 6200) for the base closure accounts. Table 13-1 illustrates the most common entries used for this account.

C. Director for Budget and Finance, WHS. The Director for Budget and Finance, WHS shall:

1. Record, in the agency-level accounting records, the Fund Authorization for the base closure accounts received from the Directorate for Construction, ODC(P/B). Table 13-2 illustrates the most common entries used to accomplish this action.

ACCOUNTING ENTRIES FOR RECORDING WARRANTS

Dr 4119 Other Appropriations Realized
Cr 4450 Authority Available for Apportionment

Dr 1013 Funds with Treasury
Cr 3100 Appropriated Capital

To record the appropriation warrant (TFS Form 6200).

Table 13-1**ACCOUNTING ENTRIES FOR FUND AUTHORIZATION**

Dr 4450 Authority Available for Apportionment
Cr 4511 Unallocated Apportionment Direct Program - Current
Period

To record the Fund Authorization received from ODC(P/B).

Table 13-2

2. Suballocate, in response to a request from the Directorate for Military Construction, ODC(P/B), a suballocation of base closure funds to the Military Departments and the Defense Agencies on Fund Authorization (attachment 2). Table 13-3 illustrates the most common entries used to accomplish this action.

D. DoD Components. The Military Departments and Defense Agencies shall:

1. Receive and record the suballocations of base closure funds received from the WHS and allot that suballocation to respective installations. The DoD Components shall subdivide their allocations of the base closure accounts by subaccount, and distribute the base closure funds to the installations responsible for base closure actions. Each DoD Component shall distribute the base closure funds to its installations in accordance with its normal fund distribution procedures. This distribution process shall include allotment, or suballotment, as appropriate, of the suballocation from the WHS. The applicable subaccounts are as follows:

Military Construction

Construction

a. (Project)

b. (Project)

Planning and Design

NOTE: The military construction subaccount should be reserved for projects listed individually on the Format 460 accompanying the fund allocation document.

**ACCOUNTING ENTRIES FOR RECORDING THE ALLOCATION OF
OBLIGATIONAL AUTHORITY**

Dr 4511 Unallocated Apportionment - Direct Program - Current Period

Cr 4541 Allocations Issued - Direct Program - Current Period

To record the allocation of obligational authority.

Table 13-3

Family Housing:

Construction

a. (Project)

b. (Project)

Planning and Design

Operations

Operation and Maintenance (O&M):

- Civilian Severance Pay
- Civilian Permanent Change of Station (PCS)
- Transportation of Things
- Real Property Maintenance
- Program Management (civilian workyears, travel, and related support dedicated to implementation efforts)

Environmental:

Includes environmental restoration, including reducing, removing, and recycling hazardous wastes, and removing unsafe buildings and debris; Memoranda of Agreements between Defense and States (DSMOA), and reimbursements to the Agency for Toxic Substance and Disease Registry (ATSDR); and mitigation efforts associated with a military installation closure or realignment. Mitigation efforts do not apply to the DoD Base Closure Account.

Community Programs:

Community Planning Assistance: For communities located near a military installation to which functions will be transferred as a result of a closure or realignment of a military installation.

Economic Adjustment Assistance: For communities located near a military installation being closed or realigned.

Federal Agencies Reimbursement:

Includes reimbursements to other Federal agencies for actions, other than for environmental activity discussed above, performed with respect to any closure or realignment.

Military Personnel:

Limited to PCS and TDY expenses dedicated to implementation efforts.

Procurement-type Items:

The procurement account should be limited to investment items in accordance with the expense/investment criteria.

Other Costs:

Expenses, other than those above, associated with base closure and realignment efforts.

2. Account for the receipt and allotment of the allocations using the entries in Table 13-4.

130303. Plan Execution

A. The DoD Components shall:

1. Record the allotment of base closure funds provided to installations. Table 13-5 illustrates the entries to record the allotment.
2. Implement base closure and realignment actions and administer their allocation of base closure funds in accordance with their approved financial plan.
 - a. Table 13-6 illustrates the entries for recording expenses that result in a fund outlay and that are incurred as a result of a DoD base closure.
 - b. Losses that do not result in a fund outlay and that are incurred as a result of a DoD base closure shall be accounted for as an extraordinary loss. Table 13-7 illustrates these entries.
3. Submit a Format 460-BC and supporting documentation to the Director for Base Closure and Utilization and the Directorate for Military Construction, ODC(P/B), on a quarterly basis to reflect the status of the approved official financial plan being executed.
4. Rephase planned execution of the financial plan as the situation dictates, and with the prior approval of the Under Secretary of Defense (Acquisition and Technology) or designee, the Director for Base Closure and Utilization, and in coordination with the Directorate for Construction, ODC(P/B). A revised Format 460-BC and supporting documentation shall be prepared that reflects the changes in the financial plan.

ACCOUNTING ENTRIES FOR RECORDING ALLOCATIONS

Dr 4550 Internal Fund Distributions Received
Cr 4561 Unallotted Allocations - Direct Program - Current Period

Dr 1013 Funds with Treasury
Cr 3100 Appropriated Capital

To record receipt of an allocation of direct program obligational authority.

Dr 4561 Unallotted Allocations - Direct Program - Current Period
Cr 4571 Allotments Issued - Direct Program - Current Period

Cr 3100 Appropriated Capital
Dr 1013 Funds with Treasury

To record the allotment of direct program obligational authority to a subordinate activity.

Table 13-4**ACCOUNTING ENTRIES FOR RECORDING ALLOTMENTS
FOR BASE CLOSURE ACCOUNTS**

Dr 4580 Allotments Received
Cr 4611 Uncommitted/Unobligated Allotments -
Direct Program - Current Period

Dr 1013 Funds with Treasury
Cr 3100 Appropriated Capital

To record receipt of an allotment.

Table 13-5

**ACCOUNTING ENTRIES FOR RECORDING EXPENSES/EXPENDITURES
FOR BASE CLOSURE ACCOUNTS**

Dr 4611 Uncommitted/Unobligated Allotments - Direct Program -
Current Period
Dr 4810 Undelivered Orders - Direct Program
Cr 4931 Accrued Expenditures - Paid - Direct Program
and
Dr 6100 (Applicable Operating Expense Account)
Cr 1012 Funds Disbursed

To record expenditure of an allotment.

Table 13-6**ACCOUNTING ENTRIES FOR RECORDING AN EXTRAORDINARY LOSS (OR
GAIN) THAT DOES NOT RESULT IN FUND OUTLAY**

Dr 1739 Accumulated Depreciation on Buildings
Dr 1749 Accumulated Depreciation on Other Structures and Facilities
Dr/Cr 7300 Extraordinary Items (Debit for Loss or Credit for Gain)
Cr 1710 Land
Cr 1730 Buildings
Cr 1740 Other Structures and Facilities

To record extraordinary loss (or gain) that do not result in a fund outlay from
base closures.

Table 13-7**1304 REPORTING RESPONSIBILITIES**

130401. Military Departments. The Military Departments shall prepare and submit reports to the Defense Finance and Accounting Service (DFAS) Centers on the status of its allotments. At a minimum, these reports will provide detail for each subaccount specified in a Fund Authorization document provided by the WHS (see paragraph 130302.C., above). These reports will be submitted in accordance with a schedule of due dates to be provided by the DFAS.

130402. Defense Agencies and the DFAS Centers. The Defense Agencies and the DFAS Centers shall submit feeder reports to the WHS on the status of its suballocations. At a minimum, these reports will provide detail for each subaccount specified in a Fund Authorization

document provided by the WHS (see paragraph 130302.C., above). These reports will be submitted in accordance with a schedule of due dates to be provided by the WHS.

130403. WHS. The WHS shall:

A. Provide a schedule of due dates, in correlation with DFAS due dates, to accounting support organizations, e.g., the Defense Agencies, DFAS Centers to submit feeder reports.

B. Perform agency-level accounting for the base closure accounts suballocated to the Defense Agencies and Military Services in accordance with this Regulation.

C. Prepare agency-level appropriation and fund status reports at the allocation level (for those reports referenced in paragraph 130404.E., for the base closure accounts allocated to the Defense Agencies and Military Services as required by Chapter 4, Volume 6, of this Regulation.

D. Review and validate Report on Appropriation Status by Fiscal Year Program and Subaccounts (Acct Rpt(M)1002) and submit data to the Office of the Under Secretary of Defense (Acquisition and Technology).

E. Provide the DFAS with copies of appropriate financial reports submitted by DoD Components, to be included with other Treasury Index 97 financial reports.

130404. DFAS. The DFAS shall:

A. Establish base closure accounts with the Treasury.

B. Post Nonexpenditure Transfer Authorizations (SF 1151) transactions, as necessary, for the base closure accounts.

C. Provide a schedule of due dates to the WHS to submit feeder reports.

D. Perform departmental-level appropriation accounting for the base closure accounts allocated to the WHS in accordance with this Regulation.

E. Prepare departmental-level appropriation and fund status reports as required by Chapter 4, Volume 6 of this Regulation for the base closure accounts administered by the Military Departments and Defense Agencies. These reports include:

1. Year-end Closing Statement (FMS Form 2108).

2. Statement of Transactions (SOT).

3. Statement of Differences (TFS Form 6652). (DFAS will download this report from Treasury.)
4. Undisbursed Appropriation Account Ledger (TFS Form 6653). (DFAS will download this report from Treasury.)
5. Undisbursed Appropriation Accounts - Trial Balance (TFS Form 6654). (DFAS will download this report from Treasury.)
6. Receipt Account Trial Balance (TFS Form 6655). (DFAS will download this report from Treasury.)
7. Report on Budget Execution (Acct Rpt(M)1176).
8. Flash Report on Obligation Status (Acct Rpt(M)1445).
9. Report on Obligation Status (SF 225).
10. Report on Reimbursements (Acct Rpt(M)725).
11. Report on Appropriation Status by Fiscal Year Program and Subaccounts (Acct Rpt(M)1002). A separate report will be prepared for each base closure account. Each report will indicate, by Military Department, the subaccounts identified in paragraph 130302.C., above, or as prescribed by the Office of the Deputy Comptroller (Program/Budget). For example, for Treasury symbol 97X0510, "DoD Base Closure Account 1990," the WHS will prepare a Report on Appropriation Status by Fiscal Year Program and Subaccounts that may include the following subaccounts for each Military Department (a) military construction, (b) family housing, (c) environmental, (d) operations and maintenance, (e) military personnel-PCS, and (f) other.
12. Prepare Chief Financial Officer reports for all base closure accounts.
13. Provide consolidation of appropriate financial reports to produce Treasury Index 97 financial reports on a pass-through basis.
14. Subject to the approval of the Office of the USD (Comptroller), supplement this guidance with additional procedures, as may be required.

1305 ADMINISTRATION OF BASE CLOSURE FUNDS

130501. Appropriated and Non-appropriated Fund Activities. Expenses, losses, or other events occurring at an appropriated activity as a direct result of a DoD base closure action and that result in a cash outlay are eligible for reimbursement from the applicable DoD Base Closure Account. Expenses, losses, or other events not resulting in a cash outlay by an appropriated activity are not eligible for reimbursement. Expenses, losses, or other events that result in a cash outlay vice expenses, losses, or other events that do not result in a cash outlay are largely dependent upon the unique circumstances in existence at a particular activity subject to closure. However, general guidance on those two categories of expenses and losses are:

A. Expenses that Ordinarily Result in a Cash Outlay

1. Military Construction projects, including planning and design efforts, for which base closure funds are requested.
2. Family Housing projects, including construction, planning and design, and operations for which base closure funds are requested.
3. Operations and Maintenance-type efforts including civilian severance pay, civilian permanent change of station (PCS), outplacement assistance transportation of things, real property maintenance, and program management (civilian workyears, travel, and related support dedicated to implementation efforts).
4. Environmental projects including environmental restoration (reducing, removing, and recycling hazardous wastes, and removing unsafe buildings and debris), Memoranda of Agreements between DoD and States, and reimbursements to the Agency for Toxic Substance and Disease Registry (ATSDR).
5. Community Programs including economic adjustment assistance to a community in which the closed base is located, or community planning assistance to the community to which functions will be transferred as a result of a closure or realignment of a military installation.
6. Federal Agencies including reimbursements to other Federal agencies for actions, other than for environmental activity discussed in subparagraph (d) above, performed with respect to any closure or realignment.
7. Military Personnel, limited to PCS and TDY expenses dedicated to implementation efforts.
8. Procurement-type Items for those items normally purchased with procurement appropriations.

9. Other expenses associated with base closure and realignment efforts.

B. Losses that Do Not Ordinarily Result in a Cash Outlay. Losses on real property or facilities sold, leased, transferred, or disposed of in connection with the closure or realignment of a military installation.

130502. Disposition of DoD Base Closure Assets. The loss (or gain) from the sale, lease, or other disposal of assets shall be recorded by the activity having financial custody of those assets. The sale, lease, or other disposal action will only be recorded in proprietary accounts of that installation. Any proceed generated from the sale, lease, or other disposal action of assets does not add to, or otherwise affect, the budgetary accounts of that activity. Table 13-8 illustrates these entries.

**ACCOUNTING ENTRIES FOR EXTRAORDINARY LOSS (OR GAIN)
RESULTING FROM THE SALE OR OTHER DISPOSAL OF BASE CLOSURE
ASSETS**

Dr 1011 Funds Collected (if any)
Dr 1739 Accumulated Depreciation on Buildings
Dr 1749 Accumulated Depreciation on Other Structures and Facilities
Dr/Cr 7300 Extraordinary Items (Debit for Loss or Credit for Gain)
 Cr 1710 Land
 Cr 1730 Buildings
 Cr 1740 Other Structures and Facilities

To record extraordinary loss (or gain) resulting from the sale or other disposal of base closure assets.

Table 13-8

ATTACHMENT 1
DoD BASE CLOSURE ACCOUNT FINANCIAL PLAN

DOD BASE CLOSURE ACCOUNT FINANCIAL PLAN		SERVICE FISCAL YEAR OF APPROPRIATION (Dollars, in Thousands)				SUBMISSION NO. As of:	
INSTALLATIONS/PROJECT(S)	PROGRAM AMOUNT	CHANGE AMOUNT	PREVIOUSLY APPROVED	PROPOSED	QT	OSD APPROVED	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	
A. <u>Military Construction</u> 1. Construction a. (Project) b. (Project) 2. Planning and Design B. <u>Family Housing</u> 1. Construction a. (Project) b. (Project) 2. Planning and Design 3. Operations C. <u>Operation and Maintenance (O&M)</u> 1. Civilian Severance Pay 2. Civilian PCS 3. Transportation of Things 4. Real property Maintenance 5. Program Management D. <u>Environmental</u> E. <u>Community Programs</u> 1. Community Planning 2. Economic Assistance F. <u>Federal Agencies</u> G. <u>Military Personnel</u> H. <u>Procurement-type Items</u>							

ATTACHMENT 2 FUND AUTHORIZATION

FUND AUTHORIZATION				
1. TYPE OF ACTION (<i>X applicable box</i>)			2. DOD COMPTROLLER REFERENCE (Number/Date)	
ALLOCATION	ALLOTMENT			
SUBALLOCATION	SUBALLOTMENT			
3. ISSUED TO:		4. ISSUED BY:		
5. APPROPRIATION/ACCOUNT SYMBOL	6. SERIAL NUMBER	7. FISCAL ACCOUNTING STATION NUMBER		
8. DIRECT OBLIGATION AUTHORITY (\$000)				
a. INITIAL OR PRIOR	b. INCREASE OR (DECREASE)	c. TOTAL		
9. REIMBURSABLE OBLIGATION AUTHORITY (\$000)				
a. INITIAL OR PRIOR	b. INCREASE OR (DECREASE)	c. TOTAL		
10. TOTAL OBLIGATION AUTHORITY (\$000)				
a. INITIAL OR PRIOR	b. INCREASE OR (DECREASE)	c. TOTAL		
11. CUMULATIVE QUARTERLY LIMITATIONS (\$000)				
	a. 1ST QUARTER	b. 2ND QUARTER	c. 3RD QUARTER	d. 4TH QUARTER
(1) Direct				
(2) Reimbursable				
12. REMARKS				
13. APPROVING OFFICIAL				
a. TYPED NAME/TITLE		b. SIGNATURE		c. DATE SIGNED

SD Form 477, FEB 92 (EG)

Previous editions are obsolete.

Designed using Perform Pro, WHS/DICR, May 95

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CHAPTER 14

TRANSFERRING, DISPOSAL, AND LEASING OF REAL PROPERTY1401 OVERVIEW

140101. Purpose. This chapter provides financial procedures for the disposal, transfer or leasing out of real property.

140102. General. Public Law 101-510, Section 2805, "Revenue from Transfer or Disposal of Department of Defense Real Property" and Section 2806, "Revenue from Leasing Out Department of Defense Assets" requires that a special fund be established to record proceeds received from the outlease of DoD assets and the disposal of real property at military installations not designated for closure or realignment. Transfers of real property between DoD Components, which do not generate revenue, are not included in the special fund.

1402 POLICY AND PROCEDURES

140201. General. Real property, and improvements thereon, under the control of a DoD Component (other than property at a military installation designated for closure or realignment) that are determined by the cognizant Secretary of a Military Department, or Director of a Defense Agency (hereafter referred to collectively as "Heads of the DoD Components") to be excess to the needs of that activity shall be made available for transfer without reimbursement to other DoD Components. If the property is not transferred, the DoD Component concerned shall request the Administrator of the General Services Administration (GSA) to transfer or dispose of such property in accordance with applicable laws. Proceeds generated from real property transactions or the leasing out of DoD assets under the provisions of Public Law 101-510, Sections 2805 or 2806 shall be deposited into a special fund Treasury receipt account. Funds deposited into the special fund receipt account will be distributed to the DoD Components by the Under Secretary of Defense (Comptroller) consistent with applicable appropriation acts.

140202. Special Fund Requirements. The special fund is to be established and operated under the provisions of Chapter 1 of this Volume. The special fund designated by the Treasury for use in connection with sections 2805 and 2806 is account 5188, "Disposal of Department of Defense Real Property" and account 5189, "Lease of Department of Defense Real Property." Accounts 5188 and 5189 have been established as no year accounts.

140203. Special Fund Purposes.

A. Public Law 101-510 requires that certain DoD real property and improvements thereto that are excess to the needs of a DoD Component first be made available for transfer without reimbursement to other DoD Components. Real property that is not

transferred shall be turned over to the GSA for sale or transfer. The net proceeds (gross proceeds less expenses of transferring or disposing of the property) shall be deposited into special fund receipt account 5188 (.017, .021, .057 and .097 for Army, Navy, Air Force and Defense Agencies, respectively) "Disposal of DoD Real Property." See paragraph 140205, below, for appropriate accounting treatment. Funds received pursuant to leases shall be deposited into the special fund receipt account 5189 (.017, .021, .057 and .097 for Army, Navy, Air Force and Defense Agencies, respectively) "Lease of DoD Real Property." See paragraph 140206 for the appropriate accounting treatment.

B. Funds deposited shall be available to DoD Components for expenditures to the extent provided for in appropriation acts as follows:

1. Fifty percent of the funds deposited shall be available for facility maintenance and repair or environmental restoration at the Military installation where the property is located.

2. Fifty percent of the funds deposited shall be available for facility maintenance and repair and environmental restoration by the Military Department concerned which had jurisdiction over the property before disposal or transferal.

140204. Reporting Requirements

A. Real Property Transactions. As part of the annual request for authorization of appropriations by the Armed Services Committee of the Senate and National Security Committee of the House of Representatives, the Department shall include an accounting of each transfer and disposal of real property made during the fiscal year preceding the fiscal year in which the request is made. This summary shall include a detailed explanation of such disposal and the use of the proceeds received.

B. Leased Asset Transactions. As part of the request for authorization of appropriations for fiscal years after 1992, the Department shall provide the following reports:

1. An accounting of all funds received and the use of all money rentals that were deposited and expended during the fiscal year preceding the fiscal year in which the request is made; and

2. A detailed explanation of each lease entered into, and each amendment made to existing leases during the preceding year.

C. The Heads of the DoD Components shall submit the data required by subparagraphs B.1. and B.2. above, as part of their annual requests for appropriations.

140205. Accounting Procedures

A. Transfers of DoD Real Property

1. If a DoD Component determines that real property and improvements thereon, under the control of that Component (other than property at a military installation designated for closure or realignment) or activity, are excess to its needs and are available for transfer to another DoD Component such transfers will be on a non-reimbursable basis. If the property is not transferred to another DoD Component, the activity shall request the GSA Administrator to dispose of such property in accordance with the provisions of Public Law 101-510, section 13(g) of the Surplus Property Act of 1944 (50 U.S.C. App 1622 (g)) or other applicable laws.

2. DoD real property transferred between DoD Components requires an accounting entry at the losing activity and a corresponding entry at the gaining activity. The accounting entry shall reflect the acquisition cost of the real property. If the acquisition cost of the property is not known or cannot be determined, fair market value at the time of the transfer may be used. Detailed explanations for property and fiscal accountability are required as supporting footnotes to the accounting entry.

3. Accounting Entries. Table 14-1 shows the most common entries used for transferring assets. For illustrative purposes, assume that the Army transfers an asset to the Defense Logistics Agency.

B. Disposal of Real Property

1. Table 14-2 illustrates the most common entries used, as appropriate, to record the removal of property and improvements from the accounting records when the property and improvements are to be sold by the GSA at applicable installations.

2. The consideration (money), when received, will be deposited directly into the special fund with the Treasury. The explanation for this transaction is as follows:

To record the disposition of the property located at (Full Description). Monies received were deposited into the special fund account 5188.xxx "Disposal of DoD Real Property" under cash voucher #_____ in accordance with Public Law 101-501, Section 2805 "Disposal of Department of Defense Real Property."

3. Funds generated prior to the issuance of implementing instructions should have been deposited into "F3875 Budget Clearing Account (Suspense)" and transferred to the applicable special fund receipt account prior to the end of the fiscal year. A no-check SF 1080 may be used to transfer money from F3875 to the special fund receipt account.

ACCOUNTING ENTRIES FOR TRANSFERRING ASSETS**1. Army Entry (Transfer Out)**

Dr 1739 - Accumulated Depreciation on Buildings

Dr 1749 - Accumulated Depreciation on Other Structures
and FacilitiesDr 1829 - Accumulated Amortization on Leasehold
ImprovementsDr 3231 - Transfers-Out to Government Agencies Without
Reimbursement

Cr 1710 - Land

Cr 1730 - Buildings

Cr 1740 - Other Structures and Facilities

Cr 1820 - Leasehold Improvements

To record the transfer of an asset from the Army to the
Defense Logistics Agency.**2. Defense Logistics Agency Entry (Transfer In)**

Dr 1710 - Land

Dr 1730 - Buildings

Dr 1740 - Other Structures and Facilities

Dr 1820 - Leasehold Improvements

Cr 1739 - Accumulated Depreciation on Buildings

Cr 1749 - Accumulated Depreciation on Other Structures
and FacilitiesCr 1829 - Accumulated amortization on leasehold
ImprovementsCr 3220 - Transfers-In from Others Without
ReimbursementTo record the receipt of an asset from the Army on a non-reimbursable
basis.**Table 14-1****140206. Leasing Out DoD Assets**

A. Funds received from the lease of DoD assets shall be deposited into the special fund receipt account with Treasury except for amounts paid for utilities and services furnished lessees. Payments for utilities and services furnished lessees pursuant to leases shall be

treated as a normal reimbursable transaction with funds credited to the appropriation account from which the cost of furnishing the utilities and services was paid.

B. Funds (applicable to leases) deposited shall be available to the DoD Components for expenditures only as provided for in appropriation acts as follows:

1. Fifty percent of the funds deposited shall be available for facility maintenance and repair or environmental restoration at the military installation where the leased property is located.

2. Fifty percent of such amount shall be available for facility maintenance and repair and for environmental restoration by the Military Department concerned.

ACCOUNTING ENTRIES FOR REMOVING ASSETS FROM ACCOUNTING RECORDS

Dr 1739 - Accumulated Depreciation on Buildings

Dr 1749 - Accumulated Depreciation on Other Structures
and Facilities

Dr 1829 - Accumulated amortization on leasehold
Improvements

Dr 3231 - Transfers-Out to Government Agencies Without
Reimbursement

Cr 1710 - Land

Cr 1730 - Buildings

Cr 1740 - Other Structures and Facilities

Cr 1820 - Leasehold Improvements

To record the disposal of assets.

Table 14-2

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CHAPTER 15

EDUCATIONAL ASSISTANCE PROGRAMS1501 OVERVIEW

150101. Purpose. This chapter provides guidance relative to recording transactions for the Educational Assistance Programs and establishes the accounting principles and standards relative to those requirements.

150102. General.

A. Entitlements under the Educational Assistance Programs are established by law and are available to any person meeting eligibility requirements. Authorizations for entitlements constitute a binding obligation on the part of the Federal Government, and eligible recipients may have legal recourse if the obligation is not fulfilled. Legislation authorizing entitlements does not necessarily include a corresponding appropriation of funds; thus, the subsequent enactment of appropriations may be necessary.

B. Entitlements for veteran educational assistance shall be established in accordance with DoD Directive 1322.16, "Montgomery GI Bill (MGIB) Program" and DoD Instruction 1322.17, "Montgomery GI Bill for the Selected Reserve."

1502 EDUCATIONAL ASSISTANCE PROGRAMS

150201. Background. The Veteran's Educational Assistance Act of 1984 (P.L. 98-525) referred to as the Montgomery GI Bill (MGIB), provides for an educational assistance program to aid in the recruitment and retention of members of the Armed Forces and the readjustment of members to civilian life after their separation from military service. The Act also provides a program of educational assistance to the Selected Reserve.

150202. Accounting Treatment. The accounting treatment to be followed for entitlement programs depends on the program and the nature and other circumstances surrounding the requirements to pay benefits. Generally, the unexpended appropriation shall be reduced by the amount of the liability and recorded as a financing source when the liability and expense are recognized.

150203. Eligibility Requirements

A. Active Duty (Chapter 30, Title 38 USC). Eligibility is obtained when an individual:

1. Becomes a member of the Armed Forces.
2. First enters on active duty.
3. Does not opt out of the basic program.
4. Meets the initial Service-defined criteria for additional or supplemental benefits of any type.

B. Selected Reserve (Chapter 1606, Title 10, USC). Members of the Selected Reserve who meet the following criteria are entitled to educational assistance. Eligibility occurs whenever an individual either:

1. On or after July 1, 1985, enlisted, reenlisted or extended an enlistment in a Reserve component for service in the Selected Reserve for a period of not less than 6 years or, in the case of officers, agree to serve in the Selected Reserve for 6 years beyond any existing Selected Reserve obligation.
2. Completed the requirements for award of a high school diploma or equivalency certificate before completing initial active duty training (IADT) or, in the case of an individual reenlisting or extending an enlistment, completed this educational requirement before such reenlistment or extension.
3. Entitlement may not be provided to a member until the member has completed the initial period of active duty for training required of the member.
4. Each person who becomes entitled to educational assistance shall be given a written Notice of Basic Eligibility (DD Form 2384-1) summarizing the provisions of Chapter 1606, Title 10, USC. This notice provides a date of basic eligibility contingent on meeting initial eligibility criteria established in 150203.B.1, 2, and 3 above.

1503 TYPES OF PROGRAMS

150301. Education benefits are comprised of two major categories--contributory programs and noncontributory programs.

150302. Contributory Programs. Enrollees in these programs, Sec. 3011 and Sec. 3012, Chapter 30, Title 38 USC, have \$100 deducted from their pay each month for the first 12 months of active duty. All participating service members are required to have completed the requirements for a high school diploma or an equivalency certificate, or have successfully completed the equivalent of 12 semester hours in a program of education leading to a standard college degree before completion of their initial active tour of duty. Some exceptions exist for early discharge for service connected disability.

A. Educational Assistance Program for Service on Active Duty.

Participation in this program is limited to persons who:

1. After June 30, 1985, first becomes a member of the Armed Forces or first enters on active duty as a member of the Armed Forces.
2. Serves at least three years of continuous active duty in the Armed Forces.
3. Serves at least two years of continuous active duty in the case of an individual whose initial period of active duty is less than three years, (see further stipulations in paragraph 150302.B below).
4. After completion of the service described above:
 - a. Continues on active duty;
 - b. Is discharged from active duty with an honorable discharge;
 - c. Is placed on the retired list or temporary disability retired list, or is transferred to the Fleet Reserve or Fleet Marine Corps Reserve;
 - d. Is released from the Armed Services under honorable conditions by the Secretary of Defense for further service in a reserve component of the Armed Forces.

B. Educational Assistance Program for Less than Three Years Service on Active Duty. Participation in this program is limited to persons who:

1. After June 30, 1985, first becomes a member of the Armed Forces or first enters on active duty as a member of the Armed Forces.
2. Serves at least two years of continuous active duty.
3. Beginning within one year after completion of the service on active duty, serves at least four years of continuous duty in the Selected Reserve during which the individual participates satisfactorily in the training as required by the Reserve Unit or the Department of Defense.

150303. Noncontributory Programs

A. Educational Assistance Program for Service in the Selected Reserve. Enrollees in this program, Chapter 1606, Title 10 USC, are required to have completed the requirements for a high school diploma or an equivalency certificate before completion of their initial active duty for training. In the case where an individual reenlists or extends an enlistment in the Selected Reserve for a period of not less than six years, is required to have completed the requirements for a high school diploma or an equivalency certificate before such reenlistment or extension. Individuals may not receive credit for service in both this program and the programs under paragraph 150302. Participation in this program is limited to persons who:

1. After June 30, 1985, enlist, reenlists, or extends an enlistment as a Reserve for service in the Selected Reserve for a period of not less than six years.
2. Are appointed as, or are serving as, a Reserve Officer and agrees to serve in the Selected Reserve for a period of not less than six years in additional to any other period of obligated service.
3. After completion of the requirements above:
 - a. Has completed the initial period of active duty training required of the member by the Reserve Unit.
 - b. Has been given a statement in writing summarizing the provisions of Sec. 16134 and 16135, Chapter 1606, Title 10 USC, which prohibits educational assistance under this program to members receiving financial assistance as a member of the Senior Reserve Officers' Training Corps Program, or to a member who fails to participate satisfactorily in the required training as a member of the Selected Reserve.

B. Vietnam Era GI Bill Service. This program required service during the period February 1, 1955, through December 31, 1976.

C. Inservice Enrollment in a Program of Education. Participation in this program is limited to individuals who are a member of the Armed Forces who did not elect to participate in the contributory programs in 150302 above, and:

1. After June 30, 1985, has completed at least two years of service on active duty.
2. Continues on active duty or in the Selected Reserve without a break in service. Some exceptions apply for not being able to find a vacancy in, or locate a unit of the Selected Reserve within stipulated timeframes.

D. Supplemental Educational Assistance for Additional Service. Benefits payable under this program are prescribed by the Secretary of Defense, and may provide

for the payment of supplemental educational assistance to individuals eligible for educational assistance under paragraph 150302 above. Eligible persons for this program:

1. Must have served five or more consecutive years of active duty in the Armed Forces beyond the years of active duty counted under paragraph 150302 without a break in service.
2. Must have been discharged from service with an honorable discharge, or is placed on the retired list, or is transferred to the Fleet Reserve or Fleet Marine is Corps Reserve, or is placed on the temporary disability retire list without a break in service after completion of five or more consecutive years of active duty beyond the years of active duty as specified in the above.
3. Must have completed two or more consecutive years of active duty in the Armed Forces beyond the years of active duty counted under paragraph 150302 without a break in service, and four or more consecutive years of duty in the Selected Reserve.

E. Educational Program for Tutorial Assistance. Benefits for participation in this program is in addition to other educational benefits received, but is limited in benefit amount and number of months.

F. Additional Educational Assistance for Qualified Individuals with Critical Skills or Specialties. The Secretary of Defense, without regard to application, may authorize educational assistance to individuals in specialized categories such as physicians and registered nurses in critical specialties, students in the nursing program, and other health professions.

1504 BENEFITS UNDER CONTRIBUTORY PROGRAMS

150401. Veterans entitled to basic educational assistance with regard to paragraph 150302.A who are pursuing an approved program of education are entitled to receive benefits at the monthly rate of \$350, beginning October 1, 1991, for an approved program of education pursued on a full-time basis. Veterans will received an appropriately reduced rate, as determined under prescribed regulations, for an approved program of education pursued on less that a full-time basis.

150402. With regard to paragraph 150302.B, veterans entitled to basic educational assistance who are pursuing an approved program of education are entitled to receive benefits at the monthly rate of \$250 beginning October 1, 1993, for an approved program of education pursued on a full-time basis. Veterans in this category also will received an appropriately reduced rate, as determined under prescribed regulations, for an approved program of education pursued on less that a full-time basis.

150403. With respect to the fiscal year beginning on October 1, 1993, and each fiscal year thereafter, the monthly rates for each previous fiscal year may provide for a percentage increase in such rates equal to the percentage by which the Consumer Price Index for the 12-month period ending on the June 30 preceding the beginning of the fiscal year for which the increase is made.

150404. In the case of an individual who has a skill or specialty designated by the Secretary of Defense as a skill or specialty in which there is a critical shortage of personnel or for which it is difficult to recruit, individuals who first became a member of the Armed Forces before November 29, 1989 are entitled to receive a basic monthly rate of up to \$400 in excess of the prescribed monthly rate; and individuals who first became a member of the Armed Forces after this date, are entitled to received a basic monthly rate of up to \$700 in excess of the prescribed monthly rate.

1505 BENEFITS FOR THE NONCONTRIBUTORY PROGRAMS IN THE SELECTED RESERVE

150501. Veterans entitled to basic educational assistance with regard to paragraph 150303.A who are pursuing an approved program of education are entitled to receive benefits, beginning April 1, 1993, at the monthly rate of \$190 for a full-time pursuit of a program of education; \$143 per month for three-quarter-time; and \$95 per month for half-time. Individuals will received an appropriately reduced rate, as determined under prescribed regulations, for an approved program of education pursued on less than a full-time basis if tuition assistance is not available to the person from the respective military department.

150502. With respect to the fiscal year beginning on October 1, 1994, and each fiscal year thereafter, the monthly rates for each previous fiscal year may provide for a percentage increase in such rates equal to the percentage by which the Consumer Price Index for the 12-month period ending on the June 30 preceding the beginning of the fiscal year for which the increase is made.

150503. Educational assistance is available for veterans pursuing a program of education consisting of a program of apprenticeship, other on-the-job training, a cooperative program, a correspondence program of education, flight training program, or a program of approved individualized tutorial assistance. The amount of monthly educational assistance allowance for each program varies and is a predetermined percentage of the monthly allowance otherwise payable to a veteran entitled to receipt of assistance, or a percentage of the cost of the program. With regard to an approved program of individualized tutorial assistance, individuals may receive an amount of up to \$100 per month in addition to the amount of educational assistance allowance otherwise payable to an individual. However, after \$600 is paid, an individual's period of entitlement is reduced at the rate of one month for each dollar amount paid that is equal to the amount of the monthly educational allowance a person is eligible to receive.

1506 FUNDING FOR EDUCATIONAL ASSISTANCE PROGRAMS.

150601. The Veteran's Educational Assistance Act of 1984 established a trust fund to finance DoD education liabilities on an actuarially sound basis. The DoD Education Benefits Fund is a trust fund used to accumulate funds for transfer to the Department of Veterans Affairs (DVA) to cover the DoD share of benefits. The Fund, 97X8098 - Department of Defense Education Benefits Fund (Education Fund), contains the following assets:

A. Amounts paid into the Education Fund from the active duty and reserve personnel appropriations.

B. Any amount that may be appropriated by the Congress to the Education Fund.

C. Interest earned as a result of the investment of available Education Fund cash balance in U.S. Government securities. This method of funding the educational assistance program became effective July 1, 1985.

150602. Amounts payable to the Education Fund shall be based on determinations by a board of actuaries as to the amounts necessary to finance DoD educational liabilities on an actuarially sound basis. The accounting principles contained in Chapter 16 of this Volume also apply to the education benefits programs.

150603. Amounts to be transferred to the Education Fund shall be obligated by Components at the same time military pay is obligated as required in Volume 3, Chapter 8, of this Regulation and further explained in Chapter 16 of this Volume.

150604. The Act provides for withholding a total of \$1,200 (in 12 equal monthly installments) from the basic pay of active duty military members who elect to participate in the new educational program. The Military Departments shall deposit the withheld funds to the general fund of the Treasury as miscellaneous receipts. The miscellaneous receipts subaccounts are identified in paragraph 150606.B, below.

150605. The DVA pays all claims for benefits under the educational program. The DVA also funds the basic educational benefits for active duty military members from a general fund appropriation. An additional basic benefit may be paid at the discretion of the Secretary of Defense. However, this is funded in the military personnel appropriations by the Department of Defense as are all supplemental benefits. These funds shall be paid into the Education Fund for subsequent transfer to the DVA.

150606. The Education Fund is used to accumulate funds for transfer to the DVA to cover the DoD share of benefits. The Director, DFAS, shall account and report for the DoD Education Benefits Fund since it is an Office of the Secretary of Defense account. In addition, the

Director, DFAS, shall invest the cash balances of the Education Fund not actually needed to cover transfers to the DVA for payment of benefits.

A. For amounts withheld from active duty members, a general fund proprietary receipt account has been established to which collections of military personnel contributions are deposited. However, the funds collected are treated as proprietary receipts of the DVA, rather than of the Department of Defense, with the appropriate offset against budget subfunction 702 (Veterans' Education, Training, and Rehabilitation).

B. Even though the Department of Defense does not receive credit for the offsetting receipts, it is responsible for collecting the contributions from individuals participating in the program. To ensure proper crediting of the collected funds, all contributions shall be deposited monthly to miscellaneous receipt account 362473 - Contributions from Military Personnel, Veteran's Educational Assistance Act of 1984. At the DVA's request, actual deposits shall be made to the following subaccounts:

- 362473.1 - Army
- 362473.2 - Air Force
- 362473.3 - Navy
- 362473.4 - Marine Corps

It is essential that the funds be deposited to Treasury index number "36" (DVA) rather than the index numbers for each Military Department.

150607. Each Military Department shall provide the DVA a monthly letter report of funds deposited to Miscellaneous Receipt account 362473. The report shall show only the net amount deposited with no detail.

A. Submit the report in time to reach the DVA no later than the close of business on the seventh workday after the close of the reported month. The following address shall be used for sending the reports:

Department of Veterans Affairs (047H1)
810 Vermont Avenue, NW
Washington, DC 20420
ATTN: C.O. Finance (047H1)

B. If the report cannot be submitted in time to reach the DVA by the seventh workday after the reported month, the Military Department shall report by facsimile (FAX) machine the amount deposited. The report should be "faxed" to the Department of Veterans Affairs Central Office, Field Finance Division.

1507 FUND TRANSFERS OF MILITARY PERSONNEL APPROPRIATIONS

Transfers from the military personnel appropriations to the DoD Education Benefits Fund shall be processed as indicated below. (The determination of the amounts to be transferred and the accounting for these amounts shall follow the accounting requirements contained in Chapter 14, Volume 4, of this Regulation.)

150701. Receipt and Expenditure Accounts. The DoD Education Benefits Fund is classified as a trust fund and uses both receipt and expenditure accounts since it is not designated a trust revolving fund. Receipts are available immediately for expenditure; therefore, the Treasury Department requires deposits to be made using "X" symbolization for the receipt account. Deposits are made to the following trust fund receipt accounts as applicable.

A. 97X8098.1 - Employing Agency Contribution, Department of Defense, Education Benefits Fund. Payments from DoD military personnel appropriations.

B. 97X8098.2 - Earnings on Investments, Department of Defense, Education Benefits Fund. Payments of interest by Treasury on Education Fund investments in U.S. securities.

C. (62) 97X8098 - Disbursements-Unamortized Premium and Discount, Department of Defense Military Retirement and Education Benefits Funds. Purchase of premium, interest, and discount.

D. (72) 97X8098 - Receipts-Unamortized Premium and Discount, Department of Defense Military Retirement and Education Benefits Fund. Write-off and amortization of premium and discount and collection of interest purchased.

E. 20X6825.01 - Unamortized Discount, Department of Defense Military Retirement and Education Benefits Funds. Purchase of discount, write-off, and amortization of discount.

F. 20X6825.02 - Unamortized Premium, Department of Defense Military Retirement and Education Benefits Funds. Purchase of premium, write-off, and amortization of premium.

G. 20X6825.03 - Accrued Interest Purchased, Department of Defense Military Retirement and Education Benefits Funds. Purchase of interest and collection of interest purchased.

150702. Calculation of Transfers. Transfers to the Education Fund from the active duty and reserve component personnel appropriations shall be accomplished monthly. The amounts to be transferred shall be calculated using the formulas provided in paragraphs 150702.A

and 150702.B, below, which are based on existing legislation and, therefore, subject to change upon any enacted amendments. The per capita normal costs to be used in the calculations shall be determined by the DoD Education Benefits Board of Actuaries. This information shall be provided to the Military Departments when it becomes available.

A. Active Duty Appropriations. The per capita normal cost multiplied by the number of new entrants who become eligible during the month. Eligibility is defined in paragraph 150203.A, above.

B. Reserve and National Guard Appropriations. The per capita normal cost multiplied by the number of Reserve Component members who become eligible during the month. Eligibility is defined in paragraph 150203.B, above. A contribution is made for an eligible member only one time. Eligibility date is established in the Notice of Basic Eligibility also described in paragraph 150203.B. This eligibility date never changes.

150703. Timing. Transfers of funds for a given month shall be accomplished on or before the last day of that month. If the transfers are accomplished on an estimated basis, they shall be adjusted in the subsequent month when actual figures become available.

150704. Method for Transfer of Funds.

A. Transfers are made on an expenditure basis. Funds shall be disbursed from the military personnel appropriations and collected into the Education Fund. The disbursement and collection transactions are accomplished using the Online Payment and Collection System (OPEC). However, the disbursement and collection transactions also can be made on an SF 1081, "Voucher and Schedule of Withdrawals and Credits." The disbursing officer making the payment shall forward a copy of the completed SF 1081 to the DFAS, and also report both the disbursement and collection transactions on the monthly DD 1329, Statement of Transactions. Completed forms shall be forwarded to the following address:

Director
Defense Finance and Accounting Service
Trust Fund Investment Office
ATTN: DFAS-HQ/GC
1931 Jefferson Davis Highway
Arlington, VA 22240-5291

B. The total amount transferred from the military personnel appropriation to the Education Fund shall be detailed by the Military Service obligation program and reported on the face of the SF 1081 or on a separate attachment.

1508 FUND TRANSFERS TO DVA

Transfers from the DoD Education Benefits Fund to the DVA shall be processed as follows:

150801. The DFAS shall transfer funds to the DVA on an expenditure basis. This is required because VA pays the benefits from general fund appropriation account 36X0137 - Readjustment Benefits, Veterans Administration.

150802. The actual transaction is accomplished by using OPEC which is preferred; however, it also can be accomplished using an SF 1081. The DFAS shall report the payment from the Education Fund account 97X8089 and the collection to general fund appropriation account 36X0137 on its DD 1329. A copy of any completed SF 1081s shall be forwarded to the DVA immediately at the following address:

VADPC (201/35)
Lock Box 66303
AMF O'Hare, Illinois 60666

1509 PAYROLL DEDUCTIONS

150901. Deductions from pay for the education benefits program are governed by the order of precedence for deductions from gross pay established by the Treasury Department in TFM 3-7040. The order of precedence shall be used when the gross entitlement payment is not sufficient to permit all deductions to be made. The order of precedence is in Volume 7 of this Regulation.

150902. When an individual enters on active duty as a member of the Armed Forces, participation in the education benefits program is automatic, unless the service member makes an election not to enroll for education benefits using DD Form 2366. Once enrolled in the program, a deduction from the service member's pay becomes mandatory. The deduction is considered an "Indebtedness Due the United States" and, therefore, ranks ahead of state income taxes and all other deductions of lower precedence. Within the "Indebtedness" category, it takes precedence below any debts due to the Department of Defense since the deduction is deposited to a civil agency account.

1510 REFUNDS OR ERRONEOUS DEDUCTIONS

Refunds or erroneous deductions from active duty members shall be processed as follows:

151001. Current Year Deductions. If the refund takes place within the same fiscal year as the erroneous deduction was made, the payment to an active duty member shall be charged to miscellaneous receipt account 362473. Such transactions will reduce the monthly deduction deposited to miscellaneous receipt account 362473 and reported to the DVA.

151002. Prior Year Deductions. If the refund takes place after the close of the fiscal year in which the erroneous deduction was made, the payment to an active duty member shall be made from Treasury appropriation 20X1807 - Refund of Monies Erroneously Received and Covered. Such payments shall be reported routinely on the Military Department's monthly Statement of Transactions. The Treasury Department shall be contacted by telephone if payments from 20X1807 in excess of \$100,000 are to be made in a given month. The report shall be provided to the Credit and Debt Management Branch, Financial Management Service.

1511 COLLECTION OF EDUCATIONAL DEBTS OWED TO THE GOVERNMENT

Collection of educational debts owed to the government by members of the Selected Reserve shall be processed as follows.

151101. Members of the Selected Reserve receiving educational assistance benefits under Title 10, United States Code, Chapter 1606, and who are determined to be unsatisfactory participants in required reserve training, may be required to refund an amount to the United States. This amount is calculated in accordance with the formula established in Title 10, United States Code, Section 16135(b)(1).

151102. The refund shall equal the product of the following:

A. The number of months of obligated service remaining under the agreement entered into by the reservist divided by the original number of months of the original obligation.

B. The total amount of educational assistance provided to the reservist increased by interest equal to the highest rate being paid by the Treasury on securities having maturity of 90 days or less on the day on which the refund is determined to be due. The interest shall accrue from the day on which the reservist first is notified of the amount due to the U.S. Government as a refund.

151103. Each Military Department shall maintain data on Selected Reserve members who are:

A. Eligible for educational assistance.

B. Determined to be unsatisfactory participants.

C. Not excused from the responsibility to refund overpayments received under the Selected Reserve educational assistance program.

151104 Responsibility for administering the collection of debts owed to the program has not been established. This matter will be addressed in the memorandum of

understanding with the DVA covering financial matters. The Military Departments shall be advised of the determination when the memorandum of understanding is ratified.

151105. The reporting requirements and related standards contained in chapter 14, Volume 4, of this regulation, also apply to the education benefits programs.

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CHAPTER 16

MILITARY PERSONNEL ENTITLEMENT PROGRAMS1601 GENERAL

160101. Purpose. This chapter prescribes the accounting principles, policy and related requirements to record transactions for entitlement programs established for DoD military personnel.

160102. Overview. Entitlements are legally established benefits available to any person or unit of government meeting eligibility requirements established by law. Authorizations for entitlements constitute a binding obligation on the part of the Federal Government, and eligible recipients may have legal recourse if the obligation is not fulfilled. Legislation authorizing entitlements does not necessarily include a corresponding appropriation of funds, and thus the subsequent enactment of appropriations may be necessary.

1602 GENERAL ACCOUNTING POLICY FOR ENTITLEMENT PROGRAMS

160201. Categories. Entitlement programs are divided into three categories according to the events that give rise to benefit payments. The accounting for these categories, identified as payments based on individual eligibility, payments required by law, and reimbursable events, are discussed in subparagraphs 160201.A through 160201.C, below.

A. When the program is administered by a Federal agency, entitlement benefits based on individuals meeting eligibility requirements of a program shall be recorded as a liability and as an expense when the eligibility requirements are met (as determined by program officials). The liability and expense shall cover all payments expected to be made during the current period of eligibility. Payments made to recipients shall reduce the recorded liability.

B. When payments are authorized (through appropriation and allotment of funds) for disbursement pursuant to legal requirements with no specific action required of the recipients, a liability and expense shall be recorded when the funds are appropriated and allotted to the applicable program managed. The liability and expense shall cover the amount to be disbursed. As payments are made, the liability shall be reduced.

C. When payments are based on the occurrence of a specific event for which costs are reimbursable under an entitlement program, a liability shall be recorded when the event occurs. If the reimbursement is based on end-of-period reports from program administrators, an estimated amount shall be accrued at the end of a reporting period.

160202. When the expense for payments made under an entitlement program exceeds the appropriation (which is permissible for certain programs under special statutory authority), the source of the related funds shall be clearly identified. If the funds were borrowed, the appropriate liability account shall be established.

160203. When there exists substantiated doubt on the continued entitlement of a military retiree or annuitant to benefit payments, and payments on an account are suspended, the Defense Finance and Accounting Service (DFAS) shall cease obligating on the subject account for retired pay, retainer pay, or annuitant benefits. Previously obligated amounts shall be deobligated to the extent of recoveries on previous payments or amounts held in a suspense account. Although this procedure is directed primarily at suspected death status accounts, it applies equally to other situations that may terminate entitlement. Examples of other situations include (but are not limited to) employment by a foreign government, renounced U.S. citizenship, remarriage of a surviving spouse, and certain student annuitants who drop out of school.

1603 ACCOUNTING POLICY FOR THE ACCRUAL AND INVESTMENT OF RETIRED MILITARY PAY

160301. Retired military pay is a pension program established for the payment of annuities or pensions to retired military personnel. As such, it fits under the broad category of entitlement programs as defined by the General Accounting Office (GAO).

160302. The FY 1984 Defense Authorization Act, Public Law 98-94, changed the method of financing military retired pay effective October 1, 1984. Under the former method, the Department estimated retired pay requirements for the forthcoming fiscal year, obtained an appropriation from the Congress, and made periodic payments of retired pay, retainer pay, and survivor benefits. Under Public Law 98-94, such payments are made to the DoD Military Retirement Fund (Retirement Fund), which contains the following assets:

A. Amounts paid into the Retirement Fund from the Military Personnel, Reserve Personnel and National Guard Personnel appropriations representing future retirement and survivor benefits being accrued by members performing current service.

B. Amounts paid into the Retirement Fund from a permanent, indefinite general fund appropriation representing a portion of retirement and survivor benefits already accrued by members due to past service.

C. Interest earned as a result of the investment of available Retirement Fund cash balances in U.S. securities.

160303. Determinations of the current portion of retired military benefits and amounts required to liquidate the unfunded portion of the Retirement Fund are discussed in the remainder of this section.

A. Amounts payable to the Retirement Fund shall be based on determinations by the board of actuaries as to the amounts necessary to fund present and future benefits payable to military retirees and their survivors. DoD Components shall include in their Military Personnel Appropriation budgets the funds to be transferred to the Retirement Fund to meet the amounts determined necessary by the DoD Board of Actuaries.

1. Accumulated benefits for a given program shall be comprised of benefits expected to be paid to the following:

a. Persons who have met the conditions of the program and will receive benefits in the future.

b. Persons who have met enough of the conditions of the program to be considered probable recipients of future benefits.

c. The survivors of both groups, as applicable.

2. Accumulated benefits shall be based on participants' history of earnings, work or service, and other appropriate factors as of the benefit information date. The benefit information date is the date when benefit information is presented. Projected years of work or service shall be a factor only in determining a person's expected eligibility for particular program benefits.

3. Automatic benefit increases, specified by the provisions of the program that are expected to occur after the benefit information date, shall be recognized when computing program benefits. The long-term inflation rate assumed shall be the future average long-term inflation rate determined by the Office of Management and Budget (OMB) to be most appropriate for Federal pension plans that report under 31 U.S.C. 9503. Other economic actuarial assumptions regarding future rates of interest and salaries shall be consistent with the assumed inflation rate.

B. Calculation of the annual amount required to liquidate the unfunded liability of the Retirement Fund shall be performed by the DoD Board of Actuaries.

C. Amounts to be transferred to the Retirement Fund for retired pay accrual shall be obligated by the DoD Components at the same time military pay is obligated as required in Volume 3 of this Regulation and further explained in paragraphs 160307 and 160308, below, of this chapter.

D. Entitlements for military retired pay and surviving annuities are described in Volume 7B, of this Regulation. Payments of authorized and accrued benefits shall be made from the Retirement Fund, a trust fund established under Public Law 98-94.

E. Calculations of the amount of the current portion of retired military benefits shall be performed centrally by the Military Departments for active, Reserve, and National Guard military personnel. The calculations shall employ a retired military pay accrual percentage published annually by the Office of the Secretary of Defense and shall be applied to the total base pay amount calculated. The term "base pay" means outlays for basic pay. The Military Departments also shall obligate and disburse amounts calculated for the retired pay accrual in the applicable military pay active duty, reserve, and national guard accounts and deposit the funds to the Retirement Fund receipt account 97X8097.1 - Employing Agency Contribution, DoD Military Retirement Fund.

160304. The Director of Investment Office, DFAS-HQ, shall be responsible for investing cash balances of the Retirement Fund not actually needed to cover payment of current retirement payments. Investments are limited to U.S. Government securities issued by the Department of the Treasury.

160305. Retired pay benefits shall be calculated and paid by the Defense Finance and Accounting Service.

160306. All reimbursements made to DoD Components in accordance with the guidance contained in Volume 11A of this Regulation for retired military pay shall be credited to the applicable military personnel appropriation account.

160307. Accounting for military pay active duty accounts shall be as follows:

A. Amounts equating to an actuarially determined percentage of basic pay shall be obligated each month for subsequent payment to the Retirement Fund.

B. Accounting for the direct program shall be at the budget subactivity level presently prescribed in Volume 2, Chapter 2, of this Regulation. Accounting for the reimbursable program may use a simplified structure to include basic pay, retired pay accrual, and other.

C. The amount accrued for retired pay shall be obligated each month. At the end of the month, amounts obligated for retired pay accrual shall be disbursed. If information on the total entitlement and total expenditures is not available at the end of the month, estimates (see subparagraph 160307.E, below) may be used and appropriate adjustments made when the actual amounts become known.

D. Release of funds shall be consistent with budgetary authority. An undelivered order entry shall be made at the beginning of each month in the amount of the estimated obligation accrual to the member for the Retirement Fund. Before the end of each month, the actual obligations shall be recorded and an accrued expenditure (paid or unpaid, as

applicable) established. The corresponding disbursement of funds shall agree with the reported outlay and amount obligated.

E. All military pay accounting systems shall provide for the recording of obligations for basic pay separate from other kinds of pay and allowances. However, the liquidation of obligations for pay and allowances may be on a gross basis. If the actual amount of basic pay paid is not known at the end of the month, the following formula, or an equivalent, can be used to calculate the amount of the retired pay obligation to be liquidated and disbursed to the Retirement Fund:

$$A * x \text{ Retired Pay Accrual} = \text{Payment}$$

* "A" is a percentage determined by dividing the total reported expenditures for pay and allowances (other than retired pay accrual) by the total entitlement (other than retired pay accrual).

F. Disbursements for retired pay benefits shall be deposited at the end of each month to trust fund receipt account 97X8097.1 - Employing Agency Contribution, Department of Defense Military Retirement Fund. Disbursement and collection transactions shall be accomplished by use of an SF 1081, "Voucher and Schedule of Withdrawals and Credits." The disbursing officer making the payment also shall process the collection, forward a copy of the completed SF 1081 to DFAS, and report both the disbursement and collection transactions on the monthly Statement of Transactions. The DFAS copy of the SF 1081 shall be transmitted by electronic means immediately upon completion of the transactions so that the deposit may be recorded in the Retirement Fund as soon as possible and the funds invested.

160308. Accounting for Reserve and National Guard personnel accounts shall be as follows:

A. Amounts equating to an actuarially determined percentage of basic pay shall be obligated each month for subsequent payment to the Retirement Fund.

B. Accounting for the direct program shall be at the budget sub-activity level prescribed in section Volume 2, Chapter 2, of this Regulation. A simplified structure which includes basic pay, retired pay accrual, and other may be used in accounting for the reimbursable program.

C. The amount accrued for retired pay shall be obligated monthly. At the end of the month, amounts obligated for retired pay accrual shall be disbursed. If information on the total entitlement and total expenditures is not available at the end of the month, estimates (see subparagraph 160307.E, above) may be used and appropriate adjustments made when the actual amounts become known.

D. Disbursements for retired pay benefits shall be deposited at the end of each month to trust fund receipt account 97X8097.1 - Employing Agency Contribution, Department of Defense Military Retirement Fund. Disbursement and collection transactions shall be accomplished by use of an SF 1081, "Voucher and Schedule of Withdrawals and Credits." The disbursing officer making the payment also shall process the collection, forward a copy of the accomplished SF 1081 to the DFAS, and report both the disbursement and collection transactions on the monthly Statement of Transactions. The DFAS copy of the SF 1081 shall be transmitted by electronic means immediately upon accomplishment of the transactions so that the deposit may be recorded in the Retirement Fund as soon as possible and the funds invested.

160309. Accounting for the permanent indefinite appropriation, 97_0040, "Payments to Military Retirement Fund, Defense" shall be as follows:

A. At least 1 week before the end of the fiscal year, the Director of Investment Office, DFAS-HQ, shall provide the Secretary of the Treasury with a certification of the amount that should be appropriated to this account for the ensuing fiscal year. The certification shall include the amount needed to fund the amortization of the original unfunded liability for military retirement and any other unfunded liability resulting from benefit structure changes and actuarial gains or losses. A copy of the certification shall be sent directly to:

Department of the Treasury
Funds Management Division
Finance Management Branch
3700 East-West Highway
Room 6F06-PGCII
Hyattsville, MD 20782

B. Upon receipt of the certification, the Treasury Department will issue a TFS Form 6200, "Appropriation Warrant," for the amount certified and forward it to the DFAS. The TFS Form 6200 shall be dated October 1 and shall be provided to the Department of Defense on or before that date so that the funds are available for investment as soon as the new fiscal year begins.

C. On October 1, the DFAS shall record the TFS Form 6200, disburse the entire amount from 97_0040, and deposit it to trust fund receipt account 97X8097.3 - Federal Contribution, DoD Military Retirement Fund.

D. The DoD Military Retirement Fund is classified as a trust fund and makes use of both receipt and expenditure accounts since it is not designated as a trust revolving fund.

1. Deposits are made to the following trust fund receipt accounts as applicable:

a. 97X8097.1 - Employing Agency Contribution, Department of Defense Military Retirement Fund. Payments from DoD Military Departments for accrual of future retired pay benefits and transfers of deposits made by Judges of the U.S. Court of Military Appeals, including interest, from the Civil Service Retirement and Disability Fund (24X8135).

b. 97X8097.2 - Earnings on Investments, Department of Defense Military Retirement Fund. Payment of interest by Treasury on Fund investments in U.S. securities.

c. 97X8097.3 - Federal Contribution, Department of Defense Military Retirement Fund. Payments from the permanent indefinite appropriation for the unfunded liability - 97_0040.

d. (62) 97X8097 - Disbursements-Unamortized Premium and Discount, Department of Defense Military Retirement Fund. Purchase of premium, interest, and discount.

e. (72) 97X8097 - Receipts-Unamortized Premium and Discount, Department of Defense Military Retirement Fund. Write-off and amortization of premium and discount and collection of interest purchased.

f. 20X6825.01 - Unamortized Discount, Department of Defense Military Retirement and Education Benefits Funds. Purchase of discount, write-off, and amortization of discount.

g. 20X6825.02 - Unamortized Premium, Department of Defense Military Retirement and Education Benefits Funds. Purchase of premium, write-off, and amortization of premium.

h. 20X6825.03 - Accrued Interest Purchased, Department of Defense Military Retirement and Education Benefits Funds. Purchase of interest and collection of interest purchased.

2. The symbol for the trust fund expenditure account is 97X8097. Amounts deposited to the above receipt accounts are available immediately to the trust fund expenditure account for investment or payment of retired pay benefits.

a. Account 97X8097 shall incorporate the same budget activity structure as the account "Retired Pay, Defense." Accounting shall be at least at the budget activity level. Lower level accounts shall be established as necessary to meet reporting requirements.

b. Since 97X8097 is an Office of the Secretary of Defense account, the DFAS shall be responsible for its overall accounting and reporting.

c. The DFAS, acting for the Secretary of Defense, shall allocate a portion of 97X8097 to each Military Department in order to fund payments of retirement benefits.

d. Annuity payments to retired Judges of the U.S. Court of Military Appeals shall be charged to 97X8097.

160310. Reporting requirements for the Retirement Fund and payments to the Fund are as follows:

A. DoD Components shall report in their Statement of Operations the amount of Federal contributions (including accrued amounts), if any, made to the pension plans(s) on behalf of their employees. The agency contribution shall not include amounts withheld from employee's compensation for submission to the plan(s).

B. DoD Components which administer programs that provide annuity benefits to eligible participants shall recognize, for reporting purposes, a liability for the actuarial present value of accumulated benefits. These are benefits earned or accrued as of the benefit information date (see subparagraph 160303.A.2., above), but will not be paid until a later date.

1. The actuarial present value of accumulated benefits is that amount, as of the benefit information date, that results from applying actuarial assumptions to the benefit amounts determined pursuant to subparagraphs 160303.A. of this chapter. The actuarial assumptions are used to adjust the amounts to reflect the time value of money (through discounts for interest) and the probability of retirement between the benefit information date and the date of retirement.

2. The significant assumptions used in determining actuarial present values shall, in the aggregate, be reasonable and reflect the best estimate of each program's anticipated experience.

3. The benefit information date shall be the end of the fiscal year being reported on. Changes in benefit rules during a year shall be reflected in that year's computation of accumulated benefits.

4. For the year in which the liability for the present value of accumulated benefits is first recorded, the initial amount of the liability shall be reported as an accounting change, i.e., a charge to equity and an accrued liability. Thereafter, changes in the liability each year shall be charged or credited to expense.

5. Footnotes to the financial statements shall disclose the nature and amount of required agency contributions, if any. The footnotes also shall disclose the agency responsible for the pension plan and, thus, responsible for reporting the unfunded liability.

6. Components that administer pension plans shall comply with requirements established by 31 U.S.C. 9501, and the accounting guidance issued pursuant to that law. Financial information for pension plans shall be reported in the annual financial statements of administering agencies.

7. The notes to the financial statements shall include a description of the methods and significant assumptions used in computing the actuarial present value of future program benefits. Additionally, if the actuarial liability computed in accordance with these standards is different from the actuarial liability computed for funding purposes, the liability used for funding purposes shall be disclosed in the footnotes along with an adequate explanation of any significant differences between the two liabilities.

C. Permanent Indefinite Appropriation 97 0040 - Payments to the Department of Defense Military Retirement Fund. The DFAS is responsible for the preparation of the reports for this account in accordance with Volume 6 of this Regulation.

D. Department of Defense Military Retirement Fund

1. Report on Budget Execution, DD Form 1176. The DFAS shall submit a DD Form 1176 for all of the Retirement Fund receipt and expenditure accounts. The report on the Retirement Fund receipt account shall be footnoted to indicate the source of deposits to account 97X8097.1 - Employing Agency Contribution, Department of Defense Military Retirement Fund.

2. Appropriation Status by Fiscal Year Program and Subaccounts, RCS DD-Comp(M)1002. The DFAS shall submit this report for the Retirement Fund expenditure account prepared in accordance with Volume 6 of this Regulation.

3. Other Reports. The DFAS shall follow the instruction in Volume 6 of this Regulation, as applicable. In addition, the Military Departments shall comply with the monthly reporting requirements contained in Volume 6 of this Regulation.

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CHAPTER 17

**MILITARY SPECIAL SEPARATION BENEFIT AND
VOLUNTARY SEPARATION INCENTIVE PROGRAMS**1701 OVERVIEW

170101. Purpose. This Chapter provides the policy and procedures for implementing and administering the Special Separation Benefit (SSB) and Voluntary Separation Incentive (VSI) Programs. These programs were authorized by the Fiscal Year 1992 Defense Authorization Act, as codified at Title 10, United States Code, sections 1174a and 1175.

1702 POLICY AND PROCEDURES170201. Program Eligibility and Benefit Computation

A. Special Separation Benefit Program. Eligibility requirements and the benefit computation for the SSB Program, are incorporated into Volume 7A, of this Regulation.

B. Voluntary Separation Incentive Program. Eligibility requirements and the benefit computation for the VSI Program are incorporated into Volume 7A, of this Regulation.

170202. Financing SourcesA. Special Separation Benefit Program

1. SSB transactions shall be paid from the current Military Personnel appropriation. Since this is a one-time payment to the eligible military member, no unfunded liability exists, and all such payments should be funded from the Military Personnel appropriation current at the time applicable payments are made.

2. Obligations for SSB Benefit shall be recorded separately from other pay and allowances.

B. Voluntary Separation Incentive Program

1. All VSI payments made after December 31, 1992, shall be paid from a "Voluntary Separation Incentive Fund" (hereafter referred to as the "Fund") established by the Department of the Treasury. The Fund shall be used to accumulate amounts needed to finance, on an actuarially sound basis, liabilities accrued under the VSI Program. To the extent provided for in appropriation acts, the assets of the Fund shall be available only to pay voluntary separation incentives.

2. Assets of the Fund shall consist of:

- a. Amounts paid into the Fund in accordance with amortization schedules developed by the DoD Board of Actuaries (see paragraph 170401, below),
- b. Any amount appropriated to the Fund, and
- c. All returns on investment of the assets in the Fund.

1703 RESPONSIBILITIES

170301. Department of Defense Board of Actuaries. The DoD Board of Actuaries (hereinafter referred to as the "Board") shall:

A. Determine an amount which is the total present value, as of January 1, 1993, of the future benefits payable to persons who separate under VSI prior to January 1, 1993. The Board also shall determine an amortization schedule for liquidating the original unfunded liability of the Fund.

B. Determine an amount which is the total present value, as of September 30, 1995, of the future benefits payable to persons who separate under VSI after December 31, 1992.

C. For each fiscal year after fiscal year 1996, carry out an actuarial valuation for the Fund and determine any new unfunded liabilities arising from gains and losses to the Fund. The Board also shall determine an amortization schedule for liquidating these new unfunded liabilities. For the upcoming fiscal years, the Board will determine, in sufficient time as to be included in the fiscal year's budget requests, the amount of Department of Defense contributions to the Fund necessary to comply with the amortization schedules for the Fund's original and new unfunded liabilities.

170302. Office of Deputy Comptroller (Program/Budget), OUSD(C). The Office of Deputy Comptroller (Program/Budget) shall include in Military Personnel Appropriation requests, amounts sufficient to fund SSB/VSI payments and liquidate the unfunded liabilities of the Fund in accordance with amortization schedules determined by the Board.

170303. Defense Finance and Accounting Service. The Defense Finance and Accounting Service (DFAS) shall:

A. Disburse all payments to military personnel from the Military Personnel appropriations for both the SSB and VSI programs prior to January 1, 1993. Both SSB and VSI benefits and obligations for benefits will be reported separately within the Military Personnel Appropriation budget activities 1 and 2.

B. Deposit amounts annually for liquidation of the original unfunded liability and all other payments due into the VSI Fund in accordance with the amortization schedule to be provided by the Board. The Office of Deputy Comptroller (Program/Budget) will provide the date for making the initial and subsequent deposits.

C. Establish appropriate operational procedures to manage fiscal aspects of the SSB program and prepare necessary fiscal reports.

D. Establish appropriate operational procedures to manage fiscal aspects of, account for, invest and report on the assets of the VSI Fund. See Table 17-1 for details relating to DFAS Center responsibilities.

E. Apply the investment provisions of 10 U.S.C. 1467 to the Fund.

F. Allocate appropriate amounts to finance VSI payments.

G. A summary of the DFAS Centers' responsibilities is in Table 17-1.

1704 PROCEDURES

170401. Military Departments. The Military Departments shall:

A. Deposit required amounts into the Fund (in accordance with paragraph 170303.B., above) by use of the Standard Form 1081, "Voucher and Schedule of Withdrawals and Credits," citing receipt account 97X8335.1, or by using the procedures identified in paragraph 240601 of Volume 5, Chapter 24, "On-Line Payment and Collection (OPAC) System," of this Regulation.

B. Record obligations in the respective Military Personnel appropriations annually in amounts equal to those determined by the Board in its amortization schedule. Disbursements from the Military Personnel appropriation to the Fund shall be equal to amounts obligated.

C. Authorize transfer of funds from the Military Personnel appropriation to the VSI Fund. Total current liability payments to the VSI Fund shall be reported annually on an SF 1081 both as a disbursement from the applicable Military Personnel appropriation (as cited in paragraph 170401.A., above) and as a deposit to the VSI Fund. A copy of the SF 1081 shall be forwarded to DFAS ATTN: DFAS-HQ/AE by electronic media three business days prior to the end of month.

D. Make the initial payments to the applicable military member from the VSI Fund, charging account 97X8335. The Military Departments also shall submit a memorandum

three business days prior to the end of the month to DFAS, Attention: DFAS-HQ/AE (Fax no. (703) 607-2824) indicating the estimated initial disbursements to the military members for the next month.

E. Deposit the following amounts (to be determined at a later date) for those personnel separated under the VSI program on or after January 1, 1993, and ending September 30, 1995, to include:

1. Such sums as are necessary to pay current year VSI liabilities and
2. An amount equal to the present value, as of September 30, 1995, of the future VSI benefit payable, as determined by the Board.

F. Deposit from funds available for the pay of members of the Armed Forces under the jurisdiction of the Secretaries of the Military Departments an amount necessary to liquidate unfunded liabilities of the Fund. These deposits shall be made annually. The amount deposited shall be in accordance with amortization schedules determined by the Board.

170402. Defense Finance and Accounting Service. The Defense Finance and Accounting Service shall:

A. Report collection and disbursement transactions in the monthly Statement of Transactions (DD Form 1329).

B. Ensure that applicable transactions are recorded in the appropriate budgetary and proprietary accounts in all military pay and other accounting systems as prescribed in Volume 7A, of this Regulation.

C. Ensure that the VSI Fund is classified as a trust fund and has been designated as account number 97X8335, "Voluntary Separation Incentive Fund." This fund will consist of both a receipt and an expenditure account.

1. Deposits shall be made to the following trust fund receipt accounts as applicable:

a. 97X8335.1 - Employing Agency Contributions, Voluntary Separation Incentive Fund. Payments from DoD Military Departments for accrual of future Voluntary Separation Incentives programs.

b. 97X8335.2 - Earnings on Investments, Voluntary Separation Incentive Fund. Payment of interest by Treasury on Fund investments.

2. The following accounts are to be used for reporting investment activity within the Fund:

a. (88)97X8335 - Investment in Treasury Securities (Par), Voluntary Separation Incentive Fund. To record the purchase of Treasury securities in the Fund.

b. (98)97X8335 - Redemption of Treasury Securities (Par), Voluntary Separation Incentive Fund. To record the redemption of Treasury securities.

c. (75)97X8335 - Unrealized Discount on Treasury Securities. To record unrealized discounts on Treasury securities.

3. Amounts deposited to the above receipt accounts are immediately available to the trust fund for investment or payment of Voluntary Separation Incentive benefits. After December 31, 1992, DFAS-Cleveland Center will make all anniversary payments of benefits payable to persons under this program from the VSI Fund, charging account 97X8335. The DFAS Cleveland Center also must submit to DFAS ATTN: DFAS-HQ/AE a monthly forecast of anniversary payments. Either a one month forecast may be submitted each month or a twelve month forecast is due annually. In either case, the forecast submission is due three business days prior to the month the disbursements are expected to occur. DFAS-Denver Center will make anniversary payments to beneficiaries.

4. Accounting shall be performed at the budget activity level, at a minimum. Lower level accounts shall be established as necessary to meet reporting requirements.

D. Ensure that the following VSI and SSB reporting requirements are met:

1. Appropriation Status by Fiscal Year Program and Subaccounts, Acct Rpt(M)1002. The DFAS shall report in accordance with instructions contained in Chapter 4, Volume 6 of this Regulation. The DFAS ATTN: DFAS-HQ/AE shall submit this report for the trust fund expenditure account using Budget Activity 1 for Officers and Budget Activity 2 for Enlisted Personnel, as currently required for DoD Military Personnel Appropriations. Each DFAS Center shall submit feeder reports in accordance with the schedule of due dates published by the DFAS ATTN: DFAS-HQ/AE. All applicable columns of the report must be completed, including disbursements for each budget subactivity.

a. Special Separation Benefit Program. Obligations are to be reported by fiscal program year since the inception of this program and are to be reported within Acct Rpt(M)1002 report, "Appropriation Status by Fiscal Year Program Subaccount," by budget category as a separate line. Two separate cost categories shall be used as shown below:

- SSB - Officers
 - Cost of Personnel

- SSB - Enlisted

- Cost of Personnel

b. Voluntary Separation Incentive Program. Military personnel separated under this program prior to and after January 1, 1993, are to be reported separately under account 97X8335 in the Acct Rpt(M)1002 report, "Appropriation Status by Fiscal Year Program Subaccounts" by budget category. Two separate cost categories shall be used as shown below:

- Voluntary Separation Incentive - Officers

- Cost of Personnel

- Voluntary Separation Incentive - Enlisted

- Cost of Personnel

2. Report on Budget Execution, Acct Rpt(M)SF 133. The DFAS shall submit Acct Rpt(M)SF 133 for the Fund's receipt and expenditure accounts. Each DFAS Center shall submit feeder reports on its disbursements by limits established for each Service and for initial or anniversary payment.

3. Other Reports. The DFAS shall follow the current instructions contained in Volume 6 of this Regulation, as applicable, for other reporting requirements.

VOLUNTARY SEPARATION INCENTIVE PROGRAM RECAP OF DFAS RESPONSIBILITIES		
EVENT	DFAS CENTERS	DFAS-CL-
Military Pay Appropriation authorized to finance the annual payment to the VSI Trust Fund.	Record receipt of the MPA fund authorization.	
Make annual Service payment determined by the DoD Board of Actuaries to liquidate the unfunded liabilities. Payment financed by the Services' Military Pay Appropriation are due each January beginning in FY1993 and are deposited into the VSI Trust Fund.	<p>Prepare the annual payment charging the MPA accounting and crediting 97X8335.1.*</p> <p>Forward the SF 1081 to the disbursing office for processing.</p> <p>Simultaneously record MPA obligations and disbursements for the amount of the annual payment.</p> <p>Forward a copy of the SF 1081 annual payment voucher to DFAS ATTN: DFAS-HQ/AE.</p>	
Receive annual Service payments.		Record the VSI Trust Fund receipts.
Issue/receive VSI Trust Fund authorization documents.	Accept, process and record the VSI Trust Fund allocation received.**	Issue VSI Trust Fund authorization document.

Reverse Military Pay Appropriation disbursements made for initial VSI Trust Fund account. Reverse disbursements are processed in the same month in which the summary recap is produced in the military payroll system.	<p>Prepare SF 1081 charging 91X8335, limit for initial payment, and budget activity code 1 for Officers or budget activity code 2 for Enlisted Personnel.</p> <p>Forward the SF 1081 to the disbursing office for processing.</p> <p>Provide DFAS ATTN: DFAS-HQ/AE a copy of the SF 1081 on or before the 5th business day of the month following the month the trust fund disbursements were processed.</p> <p>Enter processed SF 1081 voucher in the MPA and VSI Trust Fund accounting records.</p>	
Forecast VSI Trust Fund cash requirements. (DFAS-CL is responsible for forecasting anniversary payments.)	<p>Submit monthly or yearly to DFAS ATTN: DFAS-HQ/AE a forecast of anniversary payments by month.</p> <p>Submit a revised forecast on an as required basis.</p>	
Purchase/redemption of securities.		Enter investment transactions in the VSI Trust Fund accounting records.

<p>Process VSI anniversary payments. (DFAS-CL has responsibility for anniversary payments.)</p>	<p>Prepare voucher for anniversary payments charging 97X8335, limit for anniversary payments, and the application budget activity code.</p> <p>Forward payment voucher to the disbursing office for processing.</p> <p>Provide DFAS ATTN: DFAS-HQ/AE a copy of the SF 1081 on or before the 5th business day of the month following the month the trust fund disbursements were processed.</p> <p>Enter processed vouchers in the VSI Trust Fund accounting records.</p>	
<p>Process VSI payments to beneficiaries. (DFAS-DE has responsibility for beneficiary payments.)</p>	<p>Prepare voucher for beneficiary payment charging 97X8335, limit for the anniversary payment, and the applicable budget activity code.</p> <p>Forward payment voucher to the disbursing office for processing.</p> <p>Provide DFAS ATTN: DFAS-HQ/AE a copy of the SF 1081 on or before the 5th business day of the month following the month the trust fund disbursements were processed.</p> <p>Enter processed vouchers in the VSI Trust Fund accounting records.</p>	

Year end processing.	Transfer all VSI initial payments charged to Military Pay appropriations to the VSI Trust Fund prior to the end of the fiscal year.	
Prepare monthly reports.	Submit Acct Rpt (M) 1176 and DD-Comp (M) 1002 feeder reports for the VSI Trust Fund to DFAS ATTN: DFAS-HQ/AE. Report level for 1176 data is appropriation and for 1002, appropriation/limit/budget activity. Submit Statement of Transactions (DD Form 1329) to Treasury.	Receive feeder reports, record monthly execution in the departmental accounting record, and prepare the departmental reports for the VSI Trust Fund.

Footnotes:

1. Services may prepare annual payment.
2. Services may accept fund authorization.

Table 17-1

CHAPTER 18

MILITARY TEMPORARY EARLY RETIREMENT AUTHORITY PROGRAM1801 OVERVIEW

180101. Purpose. This chapter provides procedures for funding, accounting for, disbursing, and reporting retirement payments for those members chosen for early retirement under the provisions of section 4403, Public Law 102-484, National Defense Authorization Act for FY 1993.

180102. General. Public Law 102-484, National Defense Authorization Act for FY 1993, provided the Secretary of Defense a temporary additional force management tool with which to effect the drawdown of military forces. Subsection 4403(f) of the Act directs the use of a subaccount within the budget activities in the Active, Reserve and Guard Military Personnel Appropriations for retirement payments to members participating in the Temporary Early Retirement Authority (TERA) Program. The use of the TERA Program was extended through the end of FY 1999 by the National Defense Authorization Act for 1994, Public Law 103-160.

1802 POLICY AND PROCEDURES

180201. Subject to the availability of appropriations for purposes set forth in section 4403, the Secretary of each Military Department shall provide for the payment of retired pay amounts, beginning in FY 1993, to active service military members who retire up to 5 years before the completion of a 20-year period of service.

180202. When a military member retires early under authority of section 4403, an amount that is sufficient to cover the retired pay (with appropriate reductions if the Survivor Benefit Plan is elected) and cost of living adjustments (COLAs) until the member would have reached 20 years of service shall be obligated in the subaccount established in the applicable Active, Reserve or National Guard Military Personnel Appropriation. After that time, the member's retirement pay shall be funded from the Department of Defense Military Retirement Fund (97X8097). The funds included in the subaccount shall be provided in the fiscal year in which the applicable member retires. For example, assume that a TERA retiree's monthly gross retirement pay is \$1000 with an Survivor Benefit Plan (SBP) amount of \$100. Based on the computation referenced above, the amount to be obligated would be \$900 for each month plus cost of living adjustments (COLA) until the member would reach 20 years.

180203. Deductions from retired pay of TERA retirees who elect SBP are treated no differently than similar deductions in the case of retirees who retire after 20 years or more of service. There is no provision in the law for transferring amounts into the DoD Military Retirement Trust Fund equaling such reductions.

180204. There is no provision in the law that would require contributions to the Department of Defense Military Retirement Trust fund to be calculated any differently as a result of TERA. If the Board of Actuaries determines that an unfunded liability exists as a result of a change in member benefits, it would establish a proper amortization schedule pursuant to 10 U.S.C. Section 1465(c)(2), and payments into the fund would be adjusted accordingly (10 U.S.C. Section 1466 (b)(2)(B)).

180205. The required subaccounts, within the Active, Reserve and National Guard Military Personnel Appropriations, will be established for each Military Department, for each fiscal year. Amounts included in this subaccount shall be for those members that were chosen for early retirement under the provisions of section 4403. Such amounts shall be sufficient, and made available, to pay the retired members for their entire "initial period" of entitlement up to the time that responsibility for their retired pay payments is funded by the Department of Defense Military Retirement Fund (97X8097). The "initial period" is the number of years (and any fraction of a year) equal to the difference between 20 years and the number of years of service for retirement eligibility completed by the member at the time the member retired under the authority of section 4403.

180206. The Secretary of each Military Department shall provide funding for a member's initial period from amounts included in the subaccounts. The amounts included in the subaccounts shall remain available for payment in accordance with section 4403(f) of Public Law 102-484 and Title 31, United States Code, section 1553(a).

1803 RESPONSIBILITIES

180301. Secretary of each Military Department. The Secretary of each Military Department, or designee, shall:

A. In conjunction with the Office of the Deputy Comptroller (Program/Budget) (ODC(P/B)), OUSD(C), establish a subaccount entitled "Temporary Early Retirement Pay" within (1) the Pay and Allowances of Officers or Pay and Allowances of Enlisted budget activity, as applicable, for the Active Personnel Appropriations, and (2) Other Training and Support budget activities for the Reserve and National Guard Personnel Appropriations.

B. In conjunction with the ODC(P/B), establish separate subaccounts in the Active, Reserve and National Guard Personnel Appropriations for FY 1993, FY 1994, FY 1995, and October 1, 1995 (one day of FY 1996).

C. Provide for funding in the Active, Reserve and National Guard Personnel Appropriations to pay members who were approved for "early retirement" under the provisions of section 4403, Public Law 102-484.

D. As appropriate, identify to the ODC(P/B), the number of military personnel entitled under the TERA Program.

E. Identify, in budget submissions to the ODC(P/B), the number of military personnel and the appropriate funding source to pay retired personnel selected for early retirement.

F. In conjunction with the ODC(P/B), prepare appropriate funding guidance, as needed, to operate the TERA Program.

180302. Under Secretary of Defense (Personnel and Readiness) (USD(P&R)). The Under Secretary of Defense (Personnel and Readiness) shall provide, as a minimum, annual reports to ODC(P/B) Operations Directorate identifying the number of military members scheduled to retire in the forthcoming fiscal year under provisions of the TERA Program. The first report shall be provided in sufficient time to ensure that funding is available to establish the subaccount during the last quarter of FY 1993.

180303. Office of the Deputy Comptroller (Program/Budget). The ODC (P/B) shall:

A. Review the Military Departments' budget submissions for reasonableness and accuracy.

B. Ensure that the various budget submissions include the appropriate numbers/costs for the TERA Program.

180304. Defense Finance and Accounting Service. The Defense Finance and Accounting Service (DFAS) shall:

A. In conjunction with the Military Departments, ensure that obligations are established in the accounting systems when funds for the "early retirees" are transferred to the appropriate subaccounts.

B. Establish appropriate controls within the accounting systems to perform normal accounting and reporting functions for the TERA Program.

C. Ensure that the subaccount(s) and the appropriate line(s) of accounting for each Military Department are provided to the appropriate DFAS Center.

D. Ensure that fiduciary, fund status and financial management reports are prepared to coincide with reporting for the Active, Reserve and National Guard Personnel Appropriations.

E. Modify military pay systems to compute pay, benefits and withholdings for the TERA Program participants.

F. Establish methods to distinguish personnel participating in the TERA Program from regular active military members. Such action is necessary so that the monthly pay entitlements for the TERA Program participants are transferred from the appropriate Active, Reserve or National Personnel Appropriation to the Department of Defense Military Retirement Fund (97X8097) at the appropriate time.

G. Establish procedures to assist early retirees with actions affecting their pay accounts.

CHAPTER 19

FOOD SERVICE PROGRAM

(This Chapter is effective on October 1, 1996.)

1901 OVERVIEW

190101. Purpose. This chapter prescribes financial management policy and procedures formerly contained in Chapter 6, "Financial Management" of the DoD 1338.10-M, Manual for the Department of Defense Food Service Program.

190102. General

A. Title 37, United States Code, section 1011, generally requires the Department to collect the full cost of meals eaten in an appropriated fund dining facility. The provisions of this chapter shall be used to determine specific meal charges for all classes of diners, to include individuals, groups and units.

B. This chapter also prescribes that the Under Secretary of Defense (Comptroller) (USD(C)) annually shall establish rates for the meals to be consumed at appropriated fund dining facilities.

C. The format and reporting requirements for the DD-COMP(A)1736, "DoD Food Service Operating Expense Report" now are contained in Volume 11A, "Reimbursable Operations, Policy and Procedures," Chapter 6, "Chief Financial Officer's Annual Reimbursable Rates," Appendix F, of this Regulation.

190103. Applicability. This chapter is applicable to all DoD activities and shall be used on a DoD-wide basis. The Office of the USD(C) is responsible for the financial management policies herein. The Defense Finance and Accounting Service is responsible for applicable procedures necessary to assist the DoD Components in implementing these policies. The financial management policies and procedures herein shall not be supplemented by DoD Component issuances without the prior written approval of the USD(C).

1902 REIMBURSABLE MEAL AND MEAL SERVICE (OPERATING) CHARGES

190201. Meal Rates. The provisions of this chapter shall be used to determine use of the DoD discount meal rate (the cost of the food only) or the DoD standard meal rate (the cost of both the food and the non-training/readiness food service operating expenses).

190202. Meal Services Available. There are two types of meal service available to personnel authorized to use an appropriated fund dining facility on a reimbursable basis--traditional and a la carte.

A. Traditional Meal Service. Under the traditional meal service system, diners shall pay either the DoD standard meal rate or the DoD discount meal rate (as prescribed by paragraph 1903), without regard to the menu items taken.

B. A la carte Meal Service. Under the a la carte meal service system, diners shall pay either the DoD standard meal rate or the DoD discount meal rate (as prescribed by paragraph 1903), for the food items selected.

1. The Military Departments shall ensure that a consistent and fair a la carte pricing policy is applied uniformly and consistent with guidance provided by the USD(C).

2. Generally, each food item shall be priced at actual cost (or rounded to the nearest five cents). However, price averaging of certain salads, vegetables, and other food categories is authorized (e.g., a salad bar with different types of salads or vegetables).

3. When the cost of food changes, the a la carte items shall be repriced accordingly.

190203. Rates prescribed herein are applicable to meals furnished by a Military Department to military active duty personnel, personnel of the Reserve Components who are paid from Reserve or National Guard appropriations, federal civilian employees, military retirees, dependents of military personnel, and any other authorized diners.

190204. Title 37, United States Code, section 1011, generally requires the Department to charge the standard meal rate for meals eaten in an appropriated fund dining facility. There are some exceptions, however, as indicated in paragraph 1903 of this chapter.

1903 MEAL CHARGES

Reimbursement charges for persons authorized to eat in an appropriated fund dining facility vary depending on the status of each person. The five major categories of personnel are officers, enlisted personnel, military dependents, Federal civilian employees and others.

190301. Officers

A. Charge Required. DoD military officers are not authorized to eat in appropriated fund dining facilities without charge.

B. Discount Meal Rate. Officers, when not receiving the meal portion of per diem, shall be charged the discount meal rate when they are:

1. Performing duty on a U.S. Government vessel,
2. On field duty,

3. In a group travel status,
4. Included in essential unit messing (EUM) as defined in the JFTR, Volume 1,
5. On a U.S. Government aircraft on official duty either as a passenger or as a crew member engaged in flight operations, or
6. On Joint Task Force (JTF) operations other than training at temporary U.S. installations, or using temporary dining facilities.

C. Standard Meal Rate. Officers shall be charged the standard meal rate when in any status other than that set forth in paragraph 190301.B., above.

190302. Enlisted Personnel

A. Conditions for Charge. Enlisted personnel may eat in an appropriated fund dining facility without charge when not receiving either an allowance for subsistence or the meal portion of per diem. Enlisted personnel entitled to meals at government expense shall be furnished such meals on a nonreimbursable basis without regard to unit or DoD Component affiliation. Reimbursement between the Military Departments for such meals is not authorized for active duty personnel and members of the Reserve Components.

B. Discount Meal Rate. Enlisted personnel when not receiving the meal portion of per diem, shall be charged the discount meal rate when they are:

1. On a U.S. Government aircraft on official duty either as a passenger or as a crew member engaged in flight operations, or
2. On Joint Task Force (JTF) operations other than training at temporary U.S. installations, or using temporary dining facilities.

Note: Enlisted members are not entitled to the meal portion of per diem, nor a monetary allowance for subsistence, when on field duty, sea duty, group travel, or essential unit messing. Therefore, meals should be furnished at no cost to those enlisted members and, as a result, there is no reimbursable rate for enlisted members when on field duty, sea duty, group travel, or essential unit messing. (Title 37, U.S.C., sections 402 and 404, and E.O. 11157)

C. Standard Meal Rate. Enlisted personnel shall be charged the standard meal rate when they are receiving the meal portion of per diem or when they are receiving an allowance for subsistence. Enlisted personnel on recruiting duty, who receive an allowance for subsistence based on the nonavailability of subsistence-in-kind (i.e., rations not available), as authorized in Volume 7A of this Regulation, shall be authorized to receive, and to pay the standard meal rate for, a meal furnished by an appropriated fund dining facility.

190303. Military Dependents

A. Charge Required. Military dependents are not authorized to eat in appropriated fund dining facilities without charge.

B. Discount Meal Rate. Military dependents shall be charged the discount meal rate when they are dependents of enlisted members in pay grades E-1 through E-4.

C. Standard Meal Rate. All military dependents, other than military dependents of enlisted members in pay grades E-1 through E-4, shall be charged the standard meal rate.

190304. Federal Civilian Employees

A. Charge Required. Federal civilian employees are not authorized to eat in appropriated fund dining facilities without charge.

B. Discount Meal Rate. Federal civilian employees, not receiving the meal portion of per diem, shall be charged the discount meal rate when they are:

1. Performing duty on a U.S. Government vessel,
2. On field duty,
3. In a group travel status,
4. Included in essential unit messing (EUM) as defined in the JFTR,

Volume 1,

5. On a U.S. Government aircraft on official duty either as a passenger or as a crew member engaged in flight operations, or

6. On Joint Task Force (JTF) operations other than training at temporary U.S. installations, or using temporary dining facilities.

C. Standard Meal Rate. Federal civilian employees shall be charged the standard meal rate when in any status other than those set forth in subparagraph 190304.B., above.

190305. Members of Youth Groups. This category consists of members of organized nonprofit youth groups sponsored at the national or local level and ad hoc groups of youths. The distinction between the two groups is that an organized youth group has continuity over time, and a structure (such as officers, advisors, organization rules), and an ad hoc group does not. For example: A local high school Key Club, which may be sponsored by the Kiwanis

Club, would qualify as an organized nonprofit youth group. On the other hand, if the children of a local Kiwanis Club's members visited an installation, they would be considered to be an ad hoc group because they are not a formally organized and structured youth group.

A. Charge Required. These individuals are not authorized to eat in appropriated fund dining facilities without charge.

B. Discount Meal Rate. Members of an organized nonprofit youth group sponsored at either the national or local level shall be charged the discount meal rate, when extended the privilege of visiting a military installation, or when residing at a military installation pursuant to an agreement in effect on June 30, 1986, and permitted to eat in the general mess by the commanding officer of the installation (37, USC 1011(b)).

C. Standard Meal Rate. All other youth group individuals (members of ad hoc youth groups) shall be charged the standard meal rate.

190306. Others. This category includes military retirees and their dependents and all other individuals not included in paragraphs 190301, 190302, 190303, 190304, or 190305, above.

A. Charge Required. These individuals are not authorized to eat in appropriated fund dining facilities without charge.

B. Standard Meal Rate. These (all other) individuals shall be charged the standard meal rate.

1904 GENERAL PROVISIONS

190401. Personnel, other than enlisted personnel, may receive a meal from an appropriated fund dining facility, provided no increase in direct resources results from feeding such personnel and appropriate meal charges are collected consistent with paragraph 190305., above.

190402. The commanding officer of the DoD installation, at which an appropriated fund dining facility is located, is responsible for assuring that meals are provided only to authorized personnel within the capabilities and availability of existing appropriated fund dining facilities.

190403. Temporary duty orders shall indicate the food allowance/per diem status of travelers to assist in determining the appropriate meal charge to be assessed.

190404. Service Academies (i.e., Army, Navy, and Air Force) are to use the food service operating expenses published annually by the USD(C). See Chapter 20 of this Volume.

190405. Civilian and military personnel of a foreign government shall be furnished meals in accordance with specific arrangements made between the U.S. Government and the foreign government. Charges for food costs and related food service operating expenses shall be made on the same basis as they would be for U.S. Government personnel of equal rank.

1905 DISPOSITION OF FUNDS

190501. Each Military Service shall budget and account for all meals furnished by its appropriated fund activities.

190502. Program obligations and expenditures, as well as revenues and food service operating expenses, shall be recorded, accumulated, and controlled in accordance with Chapter 1, "General Reimbursement Procedures and Supporting Documentation," of Volume 11A of this Regulation.

190503. Collections

A. Except when deductions from pay are authorized and have been provided for, or prior arrangements for payment have been established with an official of an authorized group, diners shall pay for a meal in cash prior to the meal being served. In any event, all meal charges must be determined and posted not later than the last day of the month incurred with payment being made not later than the 15th of the following month.

B. Any losses that might be incurred from uncollectible accounts must be absorbed by the subsistence account funding the facility.

190504. Collections shall be distributed as follows:

A. Discount Meal Rate. Collections received from patrons paying the discount meal rate (food costs only) shall be credited to the applicable financing subsistence account of the Military Service.

B. Standard Meal Rate. Collections received from patrons paying the standard meal rate shall be credited to the financing appropriation(s) (e.g., subsistence or operations and maintenance) in the proportions specified annually by the Under Secretary of Defense (Comptroller) or the Deputy Chief Financial Officer for the Discount and Standard Meal Rates.

1906 ACCOUNTING FOR FOOD ALLOWANCES

190601. Information Requirements

A. Information requirements have been established to ensure that data are maintained and that information is reported for use in determining and administering food

allowances. These requirements prescribe procedures for counting meals furnished to personnel in appropriated fund dining facilities under the daily food allowance and authorized reimbursable programs. They are designed to assist in monitoring food costs and allowances and making the accumulation of data more consistent throughout the Department under the programs established by DoD Directive 1338.10, "DoD Food Service Program."

B. The requirements in subparagraph 190601.A., above, do not cover food service operating expenses incurred in preparing and serving food in an appropriated fund dining facility (see Volume 11A, Chapter 6, Appendix F, of this Regulation), or the recording and reporting of obligations/expenditures against the daily food allowance portion of the operations and maintenance appropriations as set forth in Volume 2, "Budget Formulation," and Volume 3, "Budget Execution," of this Regulation.

C. Data elements and codes shall be established consistent with DoD Instruction 5000.12, "Data Elements and Data Codes Standardization Procedures."

D. The data reported must support budget requests based on furnishing meals to entitled enlisted personnel by each Military Service, after consideration of the absentee rate, without regard to the member's parent Military Service.

190602. Counting the Number of Persons Furnished Meals

A. Except for mass feeding situations as set forth in subparagraphs B.1. and 2., below, all personnel authorized to eat in appropriated fund dining facilities shall identify themselves with a meal card, United States Uniformed Services identification card, or travel orders issued by a DoD Component before receiving a meal from a dining facility. Enlisted personnel on BAS or receiving the meal portion of per diem, as well as all officers, civilian employees, official visitors, dependents, and guests authorized to eat on a reimbursable basis, shall be required to identify themselves as to the category of entitlement (authorized to eat on a reimbursable basis) and status (per diem or non-per diem) and reimburse DoD at the appropriate meal rate before receiving a meal from an appropriated fund dining facility.

B. The following procedures shall be used to account for meals served to authorized subsistence-in-kind entitled or cross Service reimbursable personnel.

1. Each dining facility shall maintain a log in which each diner's unit of assignment and identification, travel order number, or other authorizing document are recorded. The applicable identification number may include, for example, the diner's meal card or social security number. When reimbursement is required, the rate category shall be recorded in the log. A person independent of the dining facility operation shall complete the log. When mass feeding within a specified time period is required, such as at recruit (basic) training centers and special schools, a single person responsible for the group may certify the entitlement classification and/or the reimbursement rate for all diners in the group.

a. The daily log shall be used by the dining facility in preparing necessary reports.

b. The meal card control officer or the personnel manager of the installation shall use the logs to conduct local management reviews and perform periodic tests of meal card usage, entitlement and reimbursement rates. The responsible official shall retain all records and test results in accordance with approved disposition schedules.

2. As an alternative to the procedures in subparagraphs 190602.A. and B., above, each diner shall sign an appropriate signature record, including authorization category, for each meal received. These records shall be reviewed at the local command level and retained until verified independently against the reports submitted for the dining facility.

3. Installation commanders are authorized to impose more stringent requirements at their discretion.

4. Multi-Technology Automated Reader Card (MARC), other SMART card technology, or other headcount procedures approved by the Secretary of a Military Department may be utilized for diner identification/authorization, as long as the integrity of the count is maintained.

C. The total count of each meal shall be classified and recorded by the diner's category of entitlement and by type of food allowance, i.e., basic daily food allowance (BDFA), special food allowance, and supplemental food allowance.

D. During combat or other operational conditions (e.g., mass troop movements, maneuvers or field exercises when actually subsisted under field conditions, forces afloat, and emergency conditions resulting from catastrophes or civil disorders), when maintenance of a meal log or signature record is not practicable, an internal control system shall be established to maintain the integrity of the headcount.

E. Each appropriated fund dining facility shall number, serially, the daily log forms and signature records, which shall include the following minimum requirements:

1. Identification of the dining facility and date.
2. Identification of the number of meals.
3. Signatures of the person maintaining the log, and of the officer in charge.
4. Diner's unit of assignment, identification number, or travel order number or other authorizing document identification, and category of entitlement which authorizes the diner to eat on a reimbursable basis.

5. Diner's signature and rank or grade.

190603. Meal Conversion Meals served (counted) shall be converted to an equivalent meal-days fed for the Chief Financial Officer's Annual Reimbursable Rate, "Food Service" report, in Volume 11A, Chapter 6, Appendix F, of this Regulation, by multiplying the meals served by the following factors:

<u>Meal</u>	<u>Factor</u>	
Breakfast	.20	
Brunch	.45	
Lunch	.40	
Dinner	.40	
Supper	.55	
Night Meal	.20 or .40	(depending on whether a breakfast or dinner menu is served)
Holiday	.65	(.40 lunch plus .25 percent of BDFA)
Snack	.25	

NOTE: These factors represent the estimated portion of the BDFA for each service member for each type of meal. The factors are used to allocate the estimated total food costs to the types of meals served.

1907 FOOD SERVICE OPERATING EXPENSE REPORTING REQUIREMENTS

The USD(C) establishes meal rates annually for personnel authorized meals on a reimbursable basis. To meet this requirement, an annual report of food service operating expenses was initiated in April 1986. This annual report is entitled the "DoD Food Service Operating Expense Report" (DD-COMP(A)1736). The format and guidance for this report are contained in Volume 11A, "Reimbursable Operations, Policy and Procedures," Chapter 6, "Chief Financial Officer's Annual Reimbursable Rates," Appendix F, of this Regulation.

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CHAPTER 20

MILITARY ACADEMY DINING HALL OPERATIONS

2001 OVERVIEW

200101. Purpose. This Chapter establishes the policy for funding the operation of cadet and midshipmen dining halls at the Military Academies and prescribes associated reporting requirements.

200102. Authority. Cadets and midshipmen are authorized an allowance in lieu of subsistence furnished in kind by Title 37, United States Code, Section 422, as interpreted by the Comptroller General Decision B-151360.

2002 POLICY AND PROCEDURES

200201. General

A. Each Military Department operates an Academy dining hall to provide complete food service support to the cadets or midshipmen as an integral part of the activities of its Academy.

B. The amount of the subsistence allowance for cadets and midshipmen is prescribed by the Secretary of Defense. The amount so prescribed will be allocated by the Military Departments from the current Military Personnel Appropriation to a nonappropriated fund at each Academy based on the number of cadets and midshipmen present. Each such nonappropriated fund will be used to procure the food and food products necessary to provide subsistence for the cadets and midshipmen. The nonappropriated fund shall not be used for any purpose other than subsistence procurement; all other charges associated with dining service shall be charged against appropriated funds.

C. The Superintendent of each Academy is authorized to determine who may be authorized to eat in the Academy dining hall and the regulations incident thereto within guidelines issued by the Secretary of the cognizant Military Department. Charges for meals furnished to other than cadets and midshipmen will be established in accordance with guidance contained in Chapter 19 of this Volume, and the Chief Financial Officer's Reimbursable Rate for "Food Service" issued annually. All collections for food costs shall be deposited into the nonappropriated fund. The charge for operating expenses will be collected and deposited under the same rules that are applicable to appropriated fund food service activities as prescribed by Chapter 19 of this volume.

D. The subsistence allowance that is not earned for any cadet or midshipman on leave or otherwise away from the Academy, and not subsisted at Government expense, will be credited to his or her pay account.

E. The subsistence allowance that is not earned for any cadet or midshipman on temporary duty, and subsistence-in-kind that is furnished at the temporary duty location, will not be collected by the nonappropriated fund.

2003 RESPONSIBILITIES

200301. Internal Control and Procurement. Under overall policy supervision by the Secretary of the cognizant Military Department, the Superintendent of each Academy shall be responsible for:

A. Assuring the efficient and effective management of the Academy dining hall and its nonappropriated fund for the purchase of subsistence items. In connection with this responsibility the Superintendent shall install an accrual accounting system that permits an objective, constructive evaluation of the dining hall operation.

B. Assuring that the procurement procedures maintain the same degree of integrity as those procurement actions taken in accordance with the Federal Acquisition Regulation (FAR). In the event any question arises in regard to the proper procurement procedure, the FAR will be used as a guide.

200302. Reporting Requirements. An annual report on meal operating expenses in the Military Academy Dining Halls should be submitted in accordance with the guidance contained in Volume 11A, "Reimbursable Operations, Policy and Procedures," Chapter 6, "Chief Financial Officer's Annual Reimbursable Rates," Appendix F, of this Regulation.

CHAPTER 21

ACCOUNTING FOR DEFENSE MILITARY HEALTH PROGRAM RESOURCES2101 OVERVIEW

210101 Purpose. This chapter establishes the policies and procedures necessary to execute the Defense Health Program (DHP).

2102 POLICY AND PROCEDURES

The following policies are to be used for the Defense Health Program:

210201. For FY 1992. Obligations and expenditures incurred at the DoD Component installation level, for execution of the Defense Health Program, shall be recorded within the applicable O&M appropriation at least monthly.

A. These obligations and expenditures shall be consolidated and transmitted to the DFAS where they will be recorded in the Defense O&M appropriation (9720100) by the DFAS. While DoD Component procedures are to be followed, the performing activity need not modify detailed level installation accounting records and roll-ups to reflect the 9720100 appropriation account as long as reporting requirements are met.

B. Detailed accounting records and data integrity, including the capability to provide data to the standard DoD Medical Expense and Performance Reporting System (MEPRS), shall continue to be maintained by the performing installations.

210202. For FY 1993 and Subsequent Years.

A. A new DHP appropriation, 97X0130, was enacted by the Congress for use in FY 1993 and beyond to fund all elements of the DHP. However, because a separate DHP agency was not established, the DHP will be executed by each of the applicable DoD Components.

B. Execution of the DHP will be executed by a direct allotment to each performing installation for all DHP costs except for medical personnel costs. Applicable military personnel costs will continue to be paid centrally from the applicable Military Personnel appropriation.

C. Civilian medical personnel end strengths shall be retained by the applicable DoD Components. To ensure proper accountability for civilian end strength utilization, it is necessary for each DoD installation to pay medical civilian personnel using its own operating

appropriation and receive reimbursement from the DHP operating appropriation. To this end, each medical facility employing civilian personnel shall issue applicable reimbursable orders. Such reimbursable orders may be issued on a pay period basis, monthly basis, or on a quarterly basis. However, such reimbursable orders may not be issued more than 100 days prior to the applicable pay period.

2103 RESPONSIBILITIES

An allocation of the DHP appropriation shall be provided to the performing DoD Components for execution as follows.

210301. The OASD (Health Affairs) Program Manager shall authorize the Washington Headquarters Services (WHS) to allocate total obligational authority to the headquarters level of each of the performing DoD Components to fund the DHP at respective installations. Effective October 1, 1993, (FY 1994) the following activities shall be funded on a direct basis from the Operations and maintenance portion of the Defense Health Program:

- A. Office of Civilian Health and Medical Programs of the Uniformed Services.
- B. Uniformed Services University of the Health Sciences.
- C. Defense Medical Program Activity.

210302. The Director of Budget and Finance, WHS, shall issue total obligational authority to the headquarters level of each performing DoD Component to fund the DHP at respective installations.

210303. The Head of each performing DoD Component, or designee shall:

- A. Provide DHP allotments to performing installations within that Component.
- B. Receive installation level monthly execution reports and summarize those reports for submission to the WHS.
- C. Provide a summarized monthly execution report to the WHS. Monthly DHP civilian end strength utilization data shall be transmitted with the monthly execution reports.
- D. Take appropriate actions to ensure the adequate availability of apportioned reimbursement authority where automatic (i.e., non-apportioned) reimbursement authority does not exist to cover the civilian payroll costs of the DHP and issue such reimbursement authority to the performing installation to enable payment of DHP civilian payroll costs.

E. Maintain full responsibility for the operation and execution of appropriate Centrally Managed Allotments (CMA) or open allotments to provide for emergency care of active duty military personnel and shall fund the CMAs from the DHP authority made available to them.

210304. The performing installation shall:

A. Cite the DHP allotment received from its Component Headquarters to fund all transactions in support of the DHP except civilian medical labor costs directly in support of the DHP.

B. Pay medical civilian personnel costs on a reimbursable basis. Reimbursement for these costs shall be provided from the allotment of the DHP at the installation level. The DHP at installation level shall issue a reimbursable order to the applicable installation operating appropriation (i.e., O&M or RDT&E) for payment of medical civilian labor costs. Such reimbursable orders may be issued on a pay period basis, monthly basis, or on a quarterly basis. However, such reimbursable orders may not be issued more than 100 days prior to the applicable pay period.

C. Continue to provide personnel and other support for civilian personnel supporting the DHP.

D. Maintain monthly and year-to-date DHP civilian end strength utilization data and transmit such data, by memorandum, to the Component headquarters and DFAS as appropriate, in conjunction with monthly execution reports.

E. Report monthly execution data as prescribed in Chapter 4, Volume 6 of this Regulation.

F. Maintain detailed accounting records and data integrity, including the capability to provide data to the standard DoD MEPRS.

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CHAPTER 22

NATIONAL DEFENSE STOCKPILE TRANSACTION FUND2201 GENERAL

220101. Purpose To prescribe the policies and procedures, certain special accounting requirements, and those unique subsidiary accounts to the DoD standard general ledger accounts, to be used in accounting and reporting for the National Defense Stockpile Transaction Fund.

220102. Scope. The accounting requirements, policies and procedures detailed in applicable volumes and chapters of this regulation, and in following sections and paragraphs are mandatory in accounting for, and accomplishing the information and reporting requirements applicable to the National Defense Stockpile Transaction Fund. Only accounting requirements and procedures for transactions particular to this fund are included in this chapter.

220103. Description. The National Defense Stockpile Transaction Fund is a continuing fund dedicated to financing the National Defense Stockpile operations. While it has some aspects of a revolving fund, it is not strictly such a fund as resources are received from diverse sources including direct appropriations, transfers from other appropriations, transfers of physical assets, and disposal proceeds. However, disposal proceeds are not dedicated to or specifically intended to provide for acquisition of additional stockpile material. Criteria and directions are in the National Defense Stockpile Act, Executive Orders, and various legislative enactments through amendments of the Stockpile Act or Appropriation Acts. The fund has been assigned Treasury account symbol, 97X4555.

2202 ACCOUNTING POLICY

220201. Basic Policies and Concepts. Accounting for the National Defense Stockpile Transaction Fund will be in accordance with accounting standards for Federal Government accounting as published by the General Accounting Office (GAO), special requirements of this chapter, the DoD standard general, and any other provisions applicable to accounting, paying, disbursing, and financial reporting as provided elsewhere in the DoD Financial Management Regulation.

220202. Responsibilities. Headquarters Defense Finance and Accounting Service (DFAS-HQ) will establish accounting requirements and procedures for the National Defense Stockpile Transaction Fund. All transactions obligating funds of the National Defense Stockpile Transaction Fund will be initiated by the Defense National Stockpile Center (DNSC). Inventory accounting for the National Defense Stockpile Transaction Fund is performed by the DNSC. Financial and general ledger accounting for the National Defense Stockpile Transaction Fund will

be performed by the designated DFAS Center, Operating Location, or Accounting and Finance Office (currently DFAS-CO/S). External accounting reports of the National Defense Stockpile Transaction Fund are prepared by the DFAS - Indianapolis Center, Departmental Accounting (DFAS-IN/AAR). Accounting reports and additional supporting supplemental financial information is provided by DFAS to the DNSC for preparation of the Department of Defense, "Strategic and Critical Materials Report to the President and Congress."

2203 ACCOUNTING REQUIREMENTS AND PROCEDURES

220301. General. Accounting systems and records for the National Defense Stockpile Transaction Fund will be based on the DoD standard general ledger chart of accounts.

220302. General Ledger Accounts. Because of some unique transactions used in National Defense Stockpile material acquisitions and sales, some special accounts subsidiary to several standard general ledger primary accounts are used. When information is required because of necessity for separate identification and inclusion in financial statements, it is needed for combining with other account in the several financial statements, or visibility is necessary for preparation of notes to the financial statements, subsidiary accounts having two positions beyond the four position primary account number will be used. Two position subsidiary accounts are included in the DoD Standard General Ledger chart of accounts, and are included in trial balances submitted for report preparation. The special subsidiary general ledger accounts prescribed for certain unique accounting requirements, or the unique use of a general ledger account for transactions of the National Defense Stockpile Transaction Fund are included in the discussion of each particular accounting area. Descriptions of accounts and transactions are generally only presented at the primary account level.

220303. Inventory Accounting. The financial inventory balance of the National Defense Stockpile is maintained on a laid-in cost basis, and shown in general ledger account 1570, Stockpile Materials, and as classified in several subsidiaries to that account, and which transaction entries are made. Subsidiary accounts used for the National Defense Stockpile inventory are:

- | | |
|---------|---|
| 1571.01 | Stockpile Materials Held in Reserve-National Defense Stockpile-Strategic and Critical Materials |
| 1571.02 | Stockpile Materials Held in Reserve-National Defense Stockpile-Custodial Transfer or Pending Survey |
| 1571.03 | Stockpile Materials Held in Reserve-National Defense Stockpile-In Process Government Facility |
| 1571.04 | Stockpile Materials Held in Reserve-National Defense Stockpile-In Process Contractor Facility |

1572.01 Stockpile Materials Held for Sale-National Defense Stockpile-Strategic and Critical Materials

The Master Inventory Record maintained by the DNSC supports the value of inventory as shown in these accounts. The DNSC and DFAS are jointly responsible for reconciling the inventory records.

220304. Material Acquisition. All intended acquisitions of material for the National Defense Stockpile are proposed in the Annual Materials Plan that is subject to approval by Congress and the subsequent authorization of funding. Funding authorization may be in the form of new appropriations, an authorization to spend from the available balance of the Transaction Fund, or from sales proceeds from authorized disposals. Material purchase contracts are recorded as obligations against the current year acquisition program on the date of the contract. When material is received it is recorded in the Master Inventory Record and the general ledger inventory account, accounts payable and a decrease in undelivered orders. Any other costs, such as initial testing, increases the cost of the material for inventory valuation. Each month the Master Inventory Record must be reconciled to the general ledger inventory account.

220305. Material Upgrade. Also included in the Annual Material Plan is the program for upgrading existing material of the National Defense Stockpile. This work is accomplished by contracts for the value of the upgrading services. These amounts are obligated against the current year program. When material is delivered to the contractor for upgrading it is transferred on the records from the stockpile inventory to material in the hands of a contractor, account 1571.04. When upgraded material is returned, a new unit cost is determined by adding the upgrading costs to the original inventory value. The amount of the upgrading cost and original cost of the material are transferred to the on hand stockpile inventory account from the material in the hands of a contractor account.

220306. Material Disposals. Various materials in the National Defense Stockpile may become obsolete or excess to current stockpiling needs. The National Defense Stockpile Act authorizes the disposal of such material. These materials can be disposed of when included in the Annual Material Plan and authorized in the budget program for the Transaction Fund. Material disposals are accounted for as sales and the original cost value of the material removed from inventory and recorded as cost of sales.

220307. Exchange Transactions. Materials can also be disposed of by offering like material as payment in kind or other material in exchange as settlement of amounts due for material upgraded or acquired. These are accounted for as exchange disposals and the original cost of the material is removed from inventory and recorded as cost of exchange disposals. Exchange settlements liquidate an obligation for material upgrade and acquisition as would payment in cash, and is accounted for through the budgetary accounts to effect the liquidation of the original contractual obligation in the accounting records.

220308. High Value Material. Disposal sales of high value and marketable commodities are offered on a bid auction or negotiated basis. Bid deposits received are held as advances until returned or recorded to sales proceeds upon delivery of material to successful buyers. Bid deposits are held and applied to the final release of material.

220309. Billing and Collection. All sales and disposals are billed shortly after the sales agreement is made or as of the scheduled time for delivery or pickup of the material. The purchaser of the material is allowed a specified number of days in which the material is to be picked up after which time storage charges are assessed. Any such storage charges are additional billings to the purchaser. When material is disposed of by exchange settlements, credits earned for material received and accepted by DNSC are used as payment for material shipped. Additional billings for delayed pickup of material are also applicable to the exchange settlement disposals. Disposal sale collections are received by the DNSC, and deposited to a local banking facility and the SF 1131, Collection Voucher, and confirmed deposit, is sent to the DFAS Accounting and Finance Office (currently DFAS-CO/S) for recording in the accounting records and financial reporting.

220310. Inventory Adjustments. Inventory adjustments are made whenever there is evidence that an adjustment is required. Such instances include periodic count or measurement of countable or measurable material, movement of material, and complete disposal of material from a storage location. All adjustments are documented and approved before recording in the master inventory record and general ledger inventory account. Depending on the nature and size of the adjustment, approval is granted by the head of the DNSC, delegated inventory officials, or board of survey.

220311. U.S. Treasury Silver Program. In previous years the U.S. Treasury provided \$180 million of silver for the stockpile. At that time the silver had a cost basis of \$1.29+ per oz. The purchase cost to the stockpile for the silver was recorded as a customer advance against an unfilled customer order. Some of this silver is being resold to the U.S. Treasury for minting in commemorative coin programs. The sales price is the world market price at the time the coins are sold by the U.S. Treasury. Deducted from these sales proceeds is the original cost basis of the silver. At the time silver is allocated to the coinage program, the silver is removed from the stockpile inventory at its original cost basis and recorded as consigned to the Treasury. General ledger account 1415, Advances to Government Agencies and Funds, is used for this consignment advance. When the report of coinage consumption is received from the Treasury with payment at the market price, the consignment amount is charged to cost of disposal sales. Total proceeds of the sale are recorded as disposal sales, and the amount of the cost basis of the silver is charged against the U.S. Treasury advance and customer order amount.

2204 RESEARCH GRANTS

220401. General. Appropriations made into the National Defense Stockpile Transaction Fund are for the award of grants to universities, colleges, and research institutions.

Included in the appropriation act is the designated recipient of the grant. The Administrator, DNSC, is the grant administering official.

220402. Grant Accounting. Grant funds appropriated to the Transaction Fund are apportioned to DoD/DLA and allotted by DLA-FO to the DNSC. Grant awards are processed by DNSC and funds are obligated by the Notice of Financial Assistance Award and SF 424, Application for Federal Assistance. Grant funds periodically disbursed are based on requests by the grant recipient and approval by the grant administrator. Disbursed funds are recorded in the accounting records as accrued expenditures, and obligation liquidations, in the budgetary accounts, and as costs and expenditures against the grant appropriated funds in the proprietary accounts.

ACCOUNT NO. 1570	
STOCKPILE MATERIALS	
DESCRIPTION: Summary account. Represents the sum of all subsidiary accounts in the 1570 series.	
DEBIT	CREDIT
<p>This account is a summary account.</p> <p>Do not post to this account</p>	
NORMAL BALANCE: DEBIT	
FIGURE 22-1	

ACCOUNT NO. 1571	
STOCKPILE MATERIALS HELD IN RESERVE	
DESCRIPTION: The value of strategic and critical materials held due to statutory requirements or for use in national defense, conservation or national emergencies.	
DEBIT	CREDIT
1. Value of material received and accepted from contractors. Contra: 2113.	1. Inventory value of material disposed of through sales to the public. Contra: 6500
2. Value of upgraded material received and accepted from contractors Contra: 2113	2. Inventory value of material disposed of through sales to other agencies or units of government. Contra: 6500
3. Amount additional costs associated with acquiring or upgrading material, such as transportation in and testing. Contra: 2113	3. Inventory value of material designated for future sale. Contra: 1572
4. Material received by transfer from other Federal Agencies. Contra: 3220	4. Inventory value of material transferred for use of other agencies or units of government without reimbursement. Contra: 6500
5. Upward adjustment of inventory for physical count increases. Contra: 7191	5. Downward adjustment of inventory for physical loss or shrinkage. Contra: 7291
NORMAL BALANCE: DEBIT	
FIGURE 22-2	

ACCOUNT NO. 1572	
STOCKPILE MATERIALS HELD FOR SALE	
DESCRIPTION: The value of strategic and critical materials held due to statutory requirements or for use in national defense, conservation, or national emergencies that are authorized to be sold.	
DEBIT	CREDIT
1. Inventory value of material designated for future sale. Contra: 1571	1. Inventory value of material disposed of through sale. Contra: 6500 2. Inventory value of material returned to the stockpile reserve inventory. Contra: 1571
NORMAL BALANCE: DEBIT	
FIGURE 22-3	

ACCOUNT NO. 1415	
ADVANCES TO GOVERNMENT AGENCIES AND FUNDS - CONSIGNED SILVER	
DESCRIPTION: Inventory value of silver consigned to the Treasury for use in coinage.	
DEBIT	CREDIT
1. Inventory value of silver allocated to the Treasury for a designated coinage program. Contra: 1571	1. Inventory value of silver reported as consumed by the Treasury for coinage. Contra: 6500
NORMAL BALANCE: DEBIT	
FIGURE 22-4	

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CHAPTER 23

CONTINGENCY OPERATIONS

TO BE ISSUED SEPARATELY

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CHAPTER 24

DEFENSE MODERNIZATION ACCOUNT (DMA)

TO BE ISSUED SEPARATELY

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